DOCUMENT RESUME

ED 283 116 CG 020 005

TITLE	Insurance Reserves: Strategies for Regulating the Federal Employees Health Benefits Program. Report to the Chairman, Committee on Post Office and Civil Service, House of Representatives.
INSTITUTION	General Accounting Office, Washington, D.C. Div. of Human Resources.
REPORT NO	GAO/HRD-87-10
PUB DATE	Mar 87
NOTE	67p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 (first five copies free, additional copies $2.00 each).
PUB TYPE	Reports - Research/Technical (143)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	*Cost Estimates; Federal Programs; *Federal Regulation; Financial Problems; *Fringe Benefits; *Health Insurance; *Money Management; Program Budgeting; Program Costs
IDENTIFIERS	*Federal Employees; *Insurance Reserves

ABSTRACT

In 1985, the Federal Employees Health Benefits Program (FEHBP) reserves had accumulated over $2 billion in reserve surplus, precipitating the program's first refund. Concerned about FEHBP reserve practices, the chairman of the House Committee on Post Office and Civil Service, United States Congress, asked the General Accounting Office (GAO) to determine FEHBP reserves over a 7-year period from 1979-1985 and compare the reserve balances with targeted levels; and to identify the different strategies for regulating reserves and the advantages and disadvantages of each. Literature and research on FEHBP reserves were reviewed, discussions with Office of Personnel Management (OPM) and Congressional Budget Office officials were held, OPM data were analyzed, and views of officials in 19 health plans were solicited for this study. The results indicated that FEHBP reserves have fluctuated widely from their targets. From 1979 through 1985, the majority of plans GAO reviewed held reserves that were more than 100 percent away from targets. OPM has three strategies for regulating reserves: (1) adjusting future premiums; (2) modifying future benefits; and (3) giving refunds. Adjusting future premiums is considered the best strategy to regulate reserves. The Congress should consider amending the FEHB Act to prescribe future premium adjustments as the only reserve adjustment strategy. (Four appendices, one figure, and 24 tables are included.) (NB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

CB

United States General Accounting Office

GAO

Report to the Chairman, Committee on Post Office and Civil Service, House of Representatives

March 1987

INSURANCE RESERVES

Strategies for Regulating the Federal Employees Health Benefits Program

ED283116

CG 020005

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

GAO/HRD-87-10

BEST COPY AVAILABLE

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-219236

March 6, 1987

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

As you requested, this report on the Federal Employees Health Benefits Program focuses on the following: (1) reserves over a 7-year period and (2) the advantages and disadvantages of the different strategies the Office of Personnel Management (OPM) has for regulating reserves.

Comments from OPM were considered in making final this report. It includes a recommendation to the Director of OPM and matters for consideration by the Congress relating to the improvement of reserve adjustment strategies.

We are sending copies of this report to the health plans discussed in the report, appropriate congressional committees, and other interested parties.

Sincerely yours,

Richard L. Fogel

Richard L. Fogel
Assistant Comptroller General

Executive Summary

Purpose

In 1985, the Federal Employees Health Benefits Program (FEHBP) reserves were record-breaking, accumulating more than $2 billion in reserve surplus and precipitating the program's first refund. Just 4 years earlier, certain FEHBP health plans faced financial difficulties because their reserve holdings were near depletion.

Concern about FEHBP reserve practices heightened with the enormous reserve buildup and an unprecedented proposal by the Blue Cross and Blue Shield Association to refund millions of dollars to health plan enrollees and the federal government. In May 1985, the Chairman of the House Committee on Post Office and Civil Service asked GAO to

- determine FEHBP reserves over a 7-year period from 1979-85, and compare the reserve balances with targeted levels; and
- identify the different strategies for regulating reserves and the advantages and disadvantages of each.

Background

The FEHBP, established by the Federal Employees Health Benefits (FEHB) Act of 1959, is administered by the Office of Personnel Management (OPM) through contracts with participating health plans. In 1985, the program insured more than 8 million federal employees, annuitants, and dependents through 212 health plans that received about $6.4 billion in premiums. Premium contributions are shared between health plan enrollees and the federal government.

OPM and each FEHBP health plan negotiate premiums annually with the intent of covering health care claims and overhead costs. Setting FEHBP premiums to cover costs precisely has been difficult to achieve in the FEHBP because health care costs and utilization have been hard to predict. Consequently, OPM requires that each plan participating in the FEHBP has surplus funds, known as "reserves," to draw on in case plan costs exceed income. In 1985, the 19 plans GAO reviewed represented more than 93 percent of the total FEHBP reserves.

A plan's reserve balance represents the difference between its income and expenses since entering the FEHBP. If a plan's income over time exceeds costs, the plan's reserves will show a positive balance. If a plan's costs exceed income over time, then reserves will have a negative balance. Since income and costs are rarely equal in the FEHBP, reserve balances routinely fluctuate, sometimes falling too low for adequate protection, at other times rising well above needed levels. OPM manages reserve fluctuations by (1) establishing preferred levels for each plan's

reserve account and (2) adjusting reserves that deviate significantly from these preferred levels.

Results in Brief

FEHBP reserves have fluctuated widely from their targets, needing frequent, and often substantial adjustment to keep them at, or near, the preferred levels. For example, from 1979 through 1985, the majority of plans GAO reviewed held reserves that were more than 100 percent away from target. With the number of uncertainties inherent in estimating health care costs, GAO doubts that OPM and the plans can set premiums accurately enough to avoid these reserve fluctuations. Consequently, OPM needs to use the best means available to equitably adjust reserves.

OPM and the plans have three strategies to regulate reserves—adjusting future premiums, modifying future benefits, or giving refunds (these strategies can also be used in combination). In GAO's opinion, adjusting future premiums is the best strategy. Compared with the alternatives, premium adjustments are administratively easier, less costly, and make the fairest cost settlement between the government and enrollees. Only the future premium adjustment strategy divides a reserve shortage or surplus between the government and enrollees by the amount contributed. Modifying future benefits and giving refunds cause cost-shifting between the government and enrollees.

Principal Findings

Premium Adjustments Make Fairest Cost Settlement

When OPM and the plans misjudge program costs and set premiums higher or lower than needed, two parties are affected, the government and enrollees. All three reserve strategies can be used to make a reserve adjustment, but the government and enrollees share a different portion of the reserve surplus or shortage, depending on the strategy used. In GAO's opinion, the reserve adjustment should compensate the government and enrollees by the amount they contributed to the reserve shortage or surplus.

Under future premium adjustments, contributions are adjusted by the amount each party overcontributed or undercontributed in the past. Benefit modifications do not affect the contributions of either the government or enrollees. Refunds return contributions to each party, but not by the same amount as past overcontributions.

Why does one method adjust contributions fairly while the others do not? Future premium adjustments correct the government and enrollees' contributions not only to those plans that have a reserve imbalance but also to all other plans in the FEHBP. This program-wide correction is needed to maintain the cost-sharing specified by the FEHB Act.

The FEHB Act prescribes how premium costs will be shared between the government and enrollees. Until 1970, annual premium and benefit changes and reserve adjustments had little or no effect on the cost-sharing arrangement because the government's contribution was fixed from year to year by the authorizing legislation.

In 1970, the act was amended to permit the government's contribution to change annually to reflect prevailing health care costs. The new cost-sharing formula averages the high option premiums of six plans, called the "Big Six." Each year, the government contribution for all plans is set at 60 percent of the Big Six average premium.

Because the government's contribution for enrollees in all plans is based on six premiums, any change in these premiums to make a reserve adjustment causes a commensurate change in the government's contribution for all FEHBP enrollees. This program-wide adjustment (1) permits settlements with parties that overcontributed or undercontributed in the past, (2) maintains the intended cost-sharing relationship between the government and enrollees, and (3) keeps the government contribution uniform. Refunds and future benefit modifications do not adjust the government contribution uniformly and, as a result, cause deviations from the initial cost-sharing arrangement. For example, the settlement for the 1985 refund from 11 plans with $1 billion in excess reserves (1) gave $100 million too much to the government, (2) did not recover $200 million in excess government contributions for enrollees of nonrefunding plans, and (3) resulted in variable government contributions for enrollees of some plans.

Premium and Benefit Adjustments Administratively Easier

Adjusting future premiums and modifying future benefits share one other advantage—they are administratively easy to accomplish compared with giving refunds. Both future premiums and future benefits adjustments can be handled during annual contract negotiations at little or no additional cost. In contrast, refunds require additional effort and costs to identify and distribute money to the appropriate individuals.

Matters for Consideration by the Congress

The Congress should consider amending the FEHB Act to prescribe future premium adjustments as the only reserve adjustment strategy. If refunds and benefit modifications are desired reserve adjustment strategies, the Congress should amend the FEHB Act to adjust the government's contribution program-wide when the Big Six plans use these strategies.

Recommendation

Unless the Congress amends the FEHB Act to provide program-wide adjustments in the government's contribution, the Director of OPM should use future premium adjustments to regulate FEHBP reserves and avoid using refunds and benefit modifications as reserve adjustment strategies.

Agency Comments

OPM disagrees with GAO's recommendation that OPM use only future premium adjustments to increase or decrease reserves. The principal problem that GAO identified, concerning refunds and benefit modifications, was the changes in cost-sharing that they create. OPM, however, disagrees that program cost-sharing should be preserved when adjusting reserve levels. In addition, OPM points out that all three reserve adjustment strategies are valid methods of adjusting reserves and sanctioned by the FEHB Act. OPM believes its director should have the flexibility of using all three strategies to ensure the most effective operation of the FEHBP.

GAO continues to believe that FEHBP cost-sharing is important when making reserve adjustment decisions. Fundamentally, GAO believes that OPM has a responsibility to protect the interests of government agencies and enrollees who share premium contributions for the program. In GAO's opinion, those interests can be best served by maintaining the integrity of the program cost-sharing and protecting contributors from inadvertent cost-shifting.

GAO agrees with OPM that all reserve adjustment strategies are legal, but believes all three do not accomplish effective operation of the FEHBP. GAO believes that when regulating FEHBP reserves, the most effective operation of the program is accomplished when the government's contribution is adjusted program-wide. Under current legislation, the government's contribution is adjusted program-wide only when future premium adjustments are used.

Contents

Executive Summary		2
Chapter 1 Introduction		10
	What Are the Types of FEHBP Plans?	10
	What Are the Purposes and Types of FEHBP Reserves?	11
	Objectives, Scope, and Methodology	14
Chapter 2 Premium Adjustments Offer Most Favorable Results for Regulating FEHBP Reserves		16
	Reserve Balances Deviate From Preferred Levels	17
	Refunds Authorized by Law	18
	Reserve Correction Through Altering Income or Costs	20
	Premium and Benefit Changes Easier and Less Costly to Administer	22
	Adjusting Future Premiums Provides the Fairest Cost Settlement	24
	Conclusions	31
	Matters for Consideration by the Congress	32
	Recommendation to the Director, OPM	32
	Agency Comments and Our Evaluation	32
Appendixes		
	Appendix I: List of FEHBP Government-Wide and Employee Organization Health Plans	34
	Appendix II: Trends in FEHBP Reserves at End of Calendar Years 1979-85	35
	Appendix III: Letter From GAO's General Counsel on the Legality of Transferring Funds From FEHBP to the General Fund of the Treasury	63
	Appendix IV: Comments From the Office of Personnel Management	67
Tables		
	Table 2.1: Effects of Various Reserve Strategies on Government Contribution	27
	Table II.1: Summary of Carrier-Held Special Reserve Positions (End of Calendar Years 1979-85)	38
	Table II.2: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Government-Wide Plans' Combined Totals	41

Table II.3: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Self-Insured Plans' Combined Totals 42
Table II.4: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Underwritten Plans' Combined Totals 43
Table II.5: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Aetna 44
Table II.6: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): AFGE 45
Table II.7: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Alliance 46
Table II.8: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): APWU 47
Table II.9: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): BC/BS 48
Table II.10: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Foreign Service 49
Table II.11: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): GEBA 50
Table II.12: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): GEHA 51
Table II.13: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Mail Handlers 52
Table II.14: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): NAGE 53
Table II.15: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): NALC 54
Table II.16: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): NAPUS 55

Table II.17: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): NFFE 56
Table II.18: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): NTEU 57
Table II.19: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Panama Canal Area 58
Table II.20: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Postal Supervisors 59
Table II.21: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Postmasters 60
Table II.22: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): Rural Carrier 61
Table II.23: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): SAMBA 62

Figure

Figure 2.1: FEHBP Reserves (1979-85) 17

Abbreviations

AFGE	American Federation of Government Employees
APWU	American Postal Workers Union
Blue Cross	Blue Cross and Blue Shield Association
BC/BS	Blue Cross and Blue Shield Service Benefit Plan
CBO	Congressional Budget Office
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
GAO	General Accounting Office
GEBA	Government Employees Benefit Association
GEHA	Government Employees Hospital Association
HMO	health maintenance organization
NAGE	National Association of Government Employees
NALC	National Association of Letter Carriers
NAPUS	National Association of Postmasters of the United States
NFFE	National Federation of Federal Employees
NTEU	National Treasury Employees Union Health Benefit Plan
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PMB	preferred minimum balance
SAMBA	Special Agents Mutual Benefits Association

Introduction

The Federal Employees Health Benefits Program (FEHBP), established by the Federal Employees Health Benefits (FEHB) Act of 1959, is the largest employer-sponsored, voluntary health program in the United States. The Office of Personnel Management (OPM) administers the program through contracts negotiated with various health plans. In 1985, the program insured more than 8 million federal employees, annuitants, and dependents through 212 health plans that received about $6.4 billion in premiums.

What Are the Types of FEHBP Plans?

Three basic types of health plans participate in FEHBP:

- Government-wide plans. Two government-wide plans, Blue Cross and Blue Shield Service Benefit Plan (BC/BS) and Aetna's indemnity benefit plan, are available to all eligible employees, annuitants, and dependents, regardless of geographic location. Both plans are required by FEHBP law to offer two benefit levels or options, i.e., high and low (or standard) options.
- Employee organization plans. These plans, sponsored by employee organizations or unions, are available to federal employees who are members of the sponsoring organizations, as well as their dependents. In 1985, 10 of the 18 employee organization plans were also open to all federal annuitants and their dependents.
- Comprehensive medical plans. These plans, often referred to as health maintenance organizations (HMOs), offer federal employees, annuitants, and dependents prepaid health care in particular geographic service areas. The plans provide comprehensive medical services through doctors and technicians in the medical centers or through direct payment to doctors or hospitals that the plans have agreements with. In 1985, there were 192 comprehensive medical plans in the program.

The choice of health plan and option is left to enrollees, who may change their enrollment during an annual open season, usually during the fall; at other times, enrollees may change under special circumstances, such as moving outside an HMO service area.

The cost of FEHBP is shared between enrollees and the government through biweekly or monthly premium contributions.[1] Premium levels

[1]By law, the government's share for each nonpostal enrollment is 60 percent (75 percent for postal workers) of the unweighted average of high option premium rates for six plans (the "Big Six"). The Big Six plans are the two government-wide plans, the two employee organization plans with the largest enrollments, and the two comprehensive medical plans with the largest enrollments. In 1985, the Big Six plans were BC/BS, Aetna, Mail Handlers, Government Employees Hospital Association

are set with the intent of (1) covering anticipated claims and overhead costs and (2) maintaining surplus funds as a protection against unexpected costs. Holding these surpluses, known in the insurance industry as "reserves," is a standard industry practice and is required by FEHBP law and regulation.

What Are the Purposes and Types of FEHBP Reserves?

FEHBP reserves are funds that can be drawn on when health care claims exceed annual premium income. When OPM and the plans negotiate premium rates for FEHBP coverage, factors that affect program costs present many uncertainties: How many enrollees will move in and out of the plan during open season? How many services will enrollees use? To what extent will inflation affect the cost of medical care in the upcoming year? Since these uncertainties make it unlikely that premium rates will be completely accurate, OPM requires that reserve accounts be established as a hedge against underestimates.

In FEHBP, two types of reserve accounts guard against underestimating:[2]

- Contingency reserves, maintained by OPM on behalf of each plan.
- Special reserves, maintained by carriers, for experience-rated plans.[3]

The FEHB Act requires OPM to maintain a contingency reserve for each plan that participates in the program. Funds for this account are collected primarily from a premium surcharge of up to 3 percent annually; these funds are held by the federal government in an account in the U.S. Treasury. Other contributions to the contingency reserve include (1) that portion of the administrative reserve not used each year to pay the cost for administering the program, and (2) any interest earned on FEHBP

(GEHA), Kaiser Foundation Health Plan-Northern California Region, and Kaiser Foundation Health Plan-Southern California Region.

[2]Two other FEHBP reserve accounts are maintained, administrative and claims reserves, but they are not used to guard against underestimates of health care claims costs. OPM holds an administrative reserve, funded each year by a premium surcharge of up to 1 percent, to cover its annual cost to administer the program. There is no end-of-year carryover balance in this account. The amount not needed to pay for administrative expenses is credited to each carrier's contingency reserve account at the end of the year. Several carriers also hold a claims reserve. The funds in this account estimate the amount of incurred, but unpaid, health care claims. The administrative and claims reserves are not discussed further, but claims reserves is mentioned in appendix II.

[3]There are plans whose annual premium rates are primarily based on their federal enrollees' claims-cost experience. All of the government-wide and employee organization plans and a few comprehensive plans are experience-rated. In 1985, there were 41 experience-rated plans. In contrast, plans whose premium rates are the same as those rates charged nonfederal groups for the same benefits in a particular geographic area are community-rated plans. Most of the comprehensive medical plans are community-rated.

funds invested in federal securities by OPM. Until March 1986, OPM regulations established a preferred minimum balance (PMB) of 1 month's premium income for each plan's contingency reserve. There is no established maximum level for the accumulation of contingency reserves.

Besides the government-held contingency reserves, OPM regulations require experience-rated plans to maintain a special reserve account as a condition of participation in the FEHBP. Unlike the contingency reserve, this account is not funded through surcharges or set-asides. Rather, a plan's special reserve account shows its cumulative premium and interest income less claims and administrative expenses and service charges since the plan entered FEHBP. The account indicates, essentially, the plan's net gain or loss position. Generally, special reserves build when a plan's premium income exceeds its claims and administrative costs. The special reserves also can be increased by (1) income from investing special reserve moneys and (2) transfers from the plan's OPM-held contingency reserve. During any year a plan takes in too little income to cover expenses, special reserves are drawn down to make up the difference. If the shortfall exceeds the plan's special reserve pool, the special reserve will show a deficit.

Generally, OPM and the plans set special reserve targets based on a plan's size and the risk to enrollees if the plan terminates. There are no legal or regulatory requirements that establish a target level for special reserves. Until the 1986 contract negotiations,[4] OPM used the following rules of thumb for establishing preferred levels:

- 1/2 month of premium income for government-wide plans,
- 1 month of premium income for underwritten plans (those that have contracted with a commercial insurer to assume the risk of losses beyond their FEHBP income and reserves), and
- 1-1/2 months of premium income for self-insured plans (those limited to their FEHBP income and reserves and their own resources to pay FEHBP expenses).

The greatest termination risk for FEHBP and enrollees is the termination of self-insured plans. If a self-insured plan terminates without sufficient reserves and assets to cover outstanding claims costs, enrollees are at

[4]During negotiations for 1986 contracts, OPM changed the reserve targets, raising them to 1 month for the government-wide plans. OPM also began considering reserve goals on a combined basis; that is, during rate-setting, a plan's 1-month contingency reserve PMB was combined with its special reserve target.

risk of being uninsured for their health care costs. As a result, the reserve target holdings for these plans is a higher relative percentage of the premium income.

Together, the contingency and special reserves represent a plan's financial ability to pay claims expenses that exceed premium income. If these combined reserves fall below zero, the plan has reached a serious financial situation—too little premium income and too few reserves to pay expenses. On the other hand, maintaining excess reserves adds costs to the government and plan enrollees for this unnecessary protection. The FEHB Act provides OPM at least three strategies to adjust reserves to maintain adequate protection against unexpected expenses: adjusting future premiums, modifying future benefits, and giving refunds. In 1985, OPM and the plans decided to use all three strategies in various combinations to decrease reserves.

In recent years, FEHBP reserves generally have been excessive. After near depletion in 1981, program reserves began to build in 1982. By the end of 1985, FEHBP excess reserves reached a record-breaking high of more than $2 billion, the result of premium income repeatedly exceeding claims for health care costs. OPM, congressional oversight groups, and others believed the reserves should be reduced. Faced with an extraordinarily high reserve excess, the Blue Cross and Blue Shield Association (Blue Cross) proposed to refund its special reserve excess to its FEHBP enrollees and the federal government. Although an unprecedented action, legal analysis by the Justice Department and GAO concluded that such a refund was consistent with the FEHB Act. OPM subsequently offered the refund option to the remaining FEHBP plans as a strategy for disposing of excess reserves. In total, 11 plans decided to refund more than $1 billion to the government and the enrollees in 1985. OPM and some plans also agreed to use two other reserve adjustment strategies, adjusting premiums and modifying benefits, to further reduce the reserve excess.

The level of FEHBP reserves and the recent intense activity, resulting from an unprecedented proposal to refund excess reserves, heightened concern about FEHBP reserve practices. The Chairman of the House Committee on Post Office and Civil Service asked us to determine the trend in FEHBP reserves and to examine the strategies OPM has for disposing of excess reserves. The information in this report should assist lawmakers and others in addressing two lingering questions about FEHBP reserves:

- How adequate have the FEHBP reserves been during the past years?

- What are the advantages and disadvantages of various reserve adjustment strategies?

Objectives, Scope, and Methodology

Our objectives were to (1) determine FEHBP reserves over 7 years and compare these end-of-year reserves balances with OPM's preferred levels (targets or PMBS) and (2) analyze strategies for managing FEHBP reserves.

To accomplish our first objective, we used data obtained from OPM (premium payments to carriers and reserve balances for calendar years 1979-85) for health plans participating in the program. We (1) determined the preferred reserve levels for 19 FEHBP plans (see app. I) based on criteria that OPM used until 1986, (2) compared the plans' end-of-year reserves balances to these preferred levels, and (3) calculated a percentage variation from the targets and PMBS. We did not evaluate the appropriateness of the preferred reserve levels or determine the precise reasons for each plan's variation from its preferred levels each year. Detailed information on a plan's reserves compared with OPM's preferred levels and summary tables can be found in appendix II.

We analyzed FEHBP reserve levels from 1979 through 1985 for the 2 government-wide plans and 17 employee organization plans. In 1985, these plans' reserves represented more than 93 percent of the combined total of FEHBP contingency and special reserves. We excluded comprehensive plans from our analyses because of their large number and the small dollar value their reserves represent compared with total FEHBP reserves. The reserve balances we used for our analyses were taken from financial reports OPM officials provided, most of which they had verified.

As of April 1986, OPM had reviewed and accepted as valid all financial statements, submitted by the 19 carriers, on FEHBP operations for 1979-84, except for one plan's 1984 statement (that statement was still being reviewed by OPM after we had completed our analysis). The 1985 reserve data OPM officials provided were their estimates of end-of-year reserve balances used in 1986 contract negotiations. We did not independently verify the accuracy of financial data obtained from OPM. In our opinion, an independent verification was not required to accomplish the objectives of this review.

To meet our second objective, we reviewed literature and studies on FEHBP reserves, held discussions with OPM and Congressional Budget Office (CBO) officials, and solicited the views of officials in 19 health

plans. We developed a list of suggested approaches to managing reserves, condensed the list to three authorized strategies, and analyzed the strengths and weaknesses of each strategy. In particular, we compared the results of refunding contributions with adjusting future premiums and modifying future benefits. We used 1985 enrollment, premium, and reserve data in a case study to demonstrate the cost impacts of each strategy on the government and the health plan enrollees. The case study encompasses facts and assumptions we used in our January 1986 report,[5] in which we evaluated the refund method OPM used to reduce 1985 excess reserves. A former OPM chief actuary agreed with our approach and assumptions in that analysis.

Our work was performed primarily at OPM in Washington, D.C., from May 1985 through April 1986 in accordance with generally accepted government audit standards.

[5]Insurance Refunds—Allocation Inequities in the Federal Employees Health Benefits Program (GAO/HRD-86-52, Jan. 27, 1986).

Chapter 2

Premium Adjustments Offer Most Favorable Results for Regulating FEHBP Reserves

History has shown that FEHBP reserves tend to fluctuate and frequently need correction to keep them at preferred levels. The fluctuation in FEHBP reserves primarily results from misjudging program costs when setting premium rates. In some years, the differences between actual and expected costs have caused special reserves to be far out of line with preferred levels. Because there are a number of uncertainties associated with estimating health care costs, we can expect fluctuation in FEHBP reserve balances to continue. Since maintaining appropriate reserve balances is important to the program's operation, OPM and the plans need strategies to adjust the unexpected reserve deviations caused by forecasting difficulties.

As mentioned in chapter 1, the FEHB Act allows OPM at least three strategies to adjust reserve balances:

- adjusting future premiums,
- modifying future benefits, and
- giving refunds.

Each strategy can be used alone or in combination with others. Before 1986, OPM and the plans primarily used premium adjustments to regulate reserves. In 1986 contract negotiations, however, OPM and the plans agreed to use all three strategies in various combinations to achieve their 1986 end-of-year reserve goals. All three strategies are effective in their primary goal of adjusting reserves but each has secondary results, such as added costs or unfair cost-sharing or both, that detract from the program.

In our opinion, managing reserves by adjusting future premiums is the best strategy. Premium adjustments are versatile, easy to administer, and fairly divide any reserve surplus or shortage between the government and enrollees. By comparison, offering refunds in order to lower reserves only corrects surpluses, is administratively more costly, and does not return to the government and enrollees their fair share of excess contributions. Benefit modifications can be administered easily and used to correct either surpluses or deficits, but they do not provide the government and enrollees a fair settlement.

This chapter discusses the FEHBP reserves from the perspective of five questions:

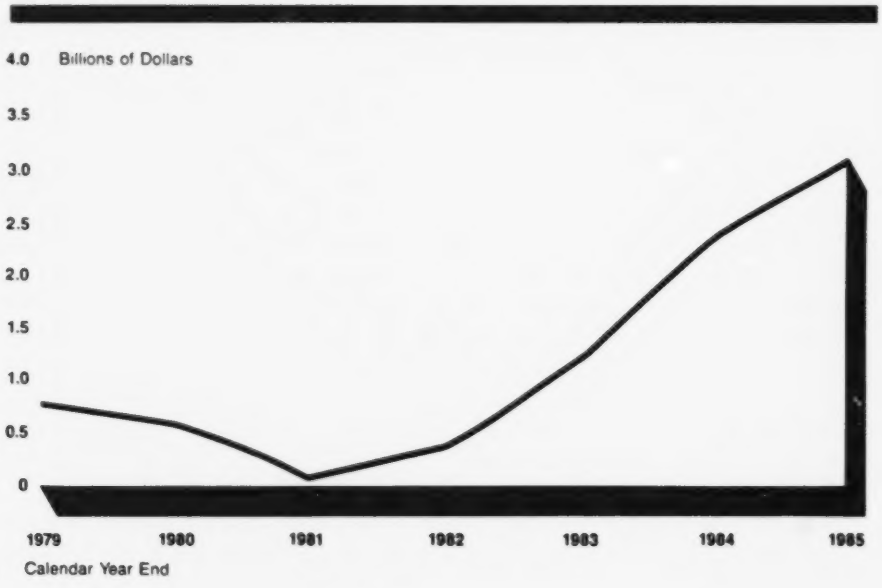
- What has the FEHBP reserve trend been?
- Which reserve adjustment strategies are legal?

- How does each reserve strategy work?
- How easily can each strategy be administered?
- How fairly does each strategy compensate the parties affected by reserve surpluses and shortfalls?

Reserve Balances Deviate From Preferred Levels

FEHBP reserves have fluctuated widely over the past 7 years, requiring frequent corrections. For the period 1979-85, a graph of the combined special and contingency reserves shows a V-shaped pattern and unprecedented levels. As shown in figure 2.1, starting from greater than $0.771 billion in 1979, the program's combined reserves balance declined to about $0.120 billion by the end of 1981, the lowest balance during the 7-year period. The reserves began an upswing in 1982, reaching an unprecedented high of more than $3 billion in 1985. Although contingency reserves remained relatively stable, except for a noticeable rise after 1982, special reserves fluctuated more dramatically.

Figure 2.1: FEHBP Reserves (1979-85)



Severe cost overruns, primarily resulting from underestimating inflation and utilization of health benefits, exhausted most plans' special reserves between 1979 and 1982. Consequently, 1982 premiums were increased to make up deficiencies in 1981 rates, as well as to meet anticipated inflation increases in 1982. Furthermore, benefits were cut, requiring

FEHBP enrollees to pay higher deductibles and coinsurance; the aim was to curb utilization and slow cost increases. This was done primarily, not to build reserves, but to compensate for misestimates that caused a 1982 budget shortfall. By the end of 1982, FEHBP reserves had begun to build. This build-up continued through 1985 because premiums have generally exceeded claims costs—the result of FEHBP utilization being significantly lower than the estimates factored into premium rates.

Keeping FEHBP reserves at appropriate levels cannot be guaranteed because of difficulties in estimating. During annual contract negotiations, OPM and the plans assess their reserve holdings, decide when and how much reserve adjustment will be made, and what reserve adjustment strategy will be used. If the estimates of OPM and the plans are off the mark, reserves will not adjust as expected. If program costs are overestimated when setting premiums, reserves will be higher than the planned adjustment; if premiums are set too low, because costs are underestimated, reserves will be lower than planned. OPM has established preferred reserve levels as general guidelines for determining how much reserve adjustment is needed. In any particular year, however, OPM may decide that circumstances preclude plans from achieving their preferred levels in a single year. For example, in 1981 OPM decided that trying to recover reserve shortages immediately would be destabilizing, given a program that was already facing substantial premium increases and benefit cutbacks. As a result, despite reserve shortages, OPM set 1982 rates and benefits so as to neither build reserves to preferred levels nor deplete reserves.

Our comparison of FEHBP reserves with their preferred levels showed that FEHBP reserve adjustments must be made frequently and often involve substantial corrections (see app. II). In almost every year from 1979 through 1985, many FEHBP plans' special reserve accounts required adjustment to bring their balances in line with target levels. In 5 of the 7 years, the majority of plans we reviewed had special reserve balances that were more than 100 percent off their target levels. Because of the need for frequent and, sometimes, large reserve adjustments, we believe selecting an appropriate reserve adjustment strategy is an important program decision.

Refunds Authorized by Law

The FEHB Act specifically authorizes OPM to use the contingency reserves to defray future rate increases, reduce the contributions of employees and the government, or increase benefits provided by the plan for which the reserve is held. The act also allows future premium rates to be

adjusted, based on past experience or planned benefit adjustments, giving OPM the flexibility to raise rates or lower future benefits to recover from reserve shortfalls. Together these provisions establish the legal basis for making future premium and benefit adjustments (up or down) to help manage FEHBP reserves.

Although premium and benefit adjustments have long been recognized as reserve adjustment strategies, it was not until 1985 that the legality of a refund was explored and confirmed. In May 1985, in a surprise announcement, Blue Cross proposed to refund $754 million of its special reserve excess to FEHBP enrollees and the federal government.[1] In July 1985, the Justice Department reviewed a modified Blue Cross proposal and concluded that refunds were consistent with the language of the statute, which allowed contingency reserves to be used "to reduce the contributions of the employees and the government."

Although refunds were found to be authorized by the statute, several legal barriers to their implementation were raised. First, in the opinion of the Justice Department, refunds were not authorized for annuitants. The statute distinguishes between employees and annuitants, and the provisions authorizing the refund applied only to employees. This technicality prevented certain plans from refunding major portions of their excess reserves to this prominent enrollee group. Second, refunds had to be made from the contingency reserves. This required plans to transfer the excess from their special reserve accounts to their contingency reserve accounts. OPM could then retain the government's share of the refund in the contingency reserves and return the remainder either directly to employees or to the plans for distribution to employees.

Transferring special reserve excess to contingency reserve accounts and keeping it there created two difficulties: (1) OPM had not established a mechanism to transfer excess special reserves to contingency reserve accounts, and (2) the government's share of the refund, if left in the contingency reserves, would not eliminate the plans' total excess reserves. To resolve the first difficulty, OPM issued regulations to allow transfers of reserve excess from the special to the contingency reserves. To address the problem of retaining the government's refund share in the contingency reserves, OPM and the Office of Management and Budget (OMB) considered transferring the excess funds from the contingency reserve to the Treasury's General Fund. The legality of doing this had not been established.

[1]Blue Cross subsequently increased the refund amount to $784 million.

We evaluated the statutory basis for both a refund and a transfer of funds from the contingency reserves to the General Fund. First, we reviewed the Justice opinion on the legality of FEHBP refunds and, in July 1985, concurred with it.[2] Then, in November 1985, we rendered an opinion on the legality of transferring the government's share of the refund from the contingency reserves to the General Fund (see app. III).[3] In our opinion, direct return of the government's refund amount to the General Fund was not authorized because the refund would not offset the government's premium contributions as the statute prescribes. One legal alternative would be to transfer the government's share of the refund back to the agencies that made the health insurance contributions. Returning money to agencies would eliminate the reserve excess. However, except for the government contribution to annuitants' premiums, this alternative would not result in government savings because the refunded amounts would be available to meet other agency obligations. Consequently, the legal opinions left two obstacles for the refund—how to return money to annuitants and how to save the surplus credited to the government.

In February 1986, the Congress removed these obstacles with passage of Public Law 99-251, the Federal Employees Benefits Improvement Act of 1986. First, it amended the FEHB Act to allow refunds of health insurance contributions to federal annuitant health plan enrollees. Second, other provisions specified the use of the government's share of the refund. The 1986 act prohibited the transfer of refunds to the General Fund and stipulated that the government's share of amounts refunded during fiscal years 1986 or 1987 could be used only to pay the government's contribution for health benefits for annuitant enrollees. The legal interpretations and new enabling legislation paved the way for using refunds as a reserve adjustment strategy.

Reserve Correction Through Altering Income or Costs

Reserves are determined by two variables—plan income and plan costs. Either can be adjusted to correct reserves. To build reserves, plan income must exceed costs. To lower reserves, plan costs must exceed income. Of the three reserve adjustment strategies, two—premium adjustments and refunds— alter the income variable. The other strategy, benefit modifications, alters the claims costs experienced by a plan.

[2]Letter to the Chairman, House Committee on Post Office and Civil Service, B-219236, July 31, 1985.

[3]Letter to the Chairman, House Committee on Post Office and Civil Service, B-219236.2, Nov. 26, 1985.

To make reserve corrections through future premium income adjustments, OPM and the plan would determine the amount of reserve imbalance and, based on the plan's enrollment, adjust its planned premium by an amount that would correct the imbalance. For example, a plan determines that it has a $10 million reserve imbalance. With 100,000 enrollees, the plan calculates a premium estimated to cover claims, then adjusts it by $100. If reserves are $10 million too low, the premium will be raised by $100, and the added income not needed to pay claims will build the reserves. If reserves are $10 million too high, the premium would be lowered by $100, and this income shortfall would be supplanted by the available reserve excess.

To correct reserves through benefit modifications, a plan adds or reduces benefits to adjust its future claims costs by an amount corresponding to the reserve imbalance. When benefits are added, claims costs increase but the premium income does not. Excess reserves make up the difference. When benefits are decreased, claims costs decrease but income does not. The extra income is credited to the reserves. The range of possible benefit adjustments is wide, limited only by the needed reserve adjustment and by what OPM and a plan can contractually agree on.

When making reserve corrections through future premium or benefit adjustments, OPM and the plans generally must make an adjustment more extreme than the past overcontributions or undercontributions would require. Since the reserve imbalance grew because claims costs were either more or less than income, the adjustment must not only remedy prior year imbalances but must also match future income to expected claims.

Future reserve corrections tend to make either the premium or the benefits fluctuate over time. When income and claims are inadvertently unequal 1 year, causing a reserve imbalance, often OPM and the plans deliberately make income and claims unequal the next year or 2 or 3 to remedy the reserve imbalance. The recovery action typically recreates the income and expense mismatch in reverse. These back-to-back mismatches between income and costs tend to make either premium rates or benefits fluctuate. For example, when OPM and the plans choose 1-year premium adjustments to correct reserve shortfalls, enrollees would most likely experience (1) premiums too low the first year because program costs were higher than estimates, (2) premiums increasing above costs in the year of the correction, and (3) premiums decreasing to match claims

costs in the third year. The more extreme the reserve imbalance, the more extreme the fluctuation.

Refunds are like premium adjustments because they reduce a plan's income, not its costs. Refunds differ from premium adjustments because they reduce current, not future, plan income. Unlike premium adjustments or benefit modifications, which mirror a past imbalance in the future to make an overall correction, refunds are more direct. A plan reduces its income by returning excess contributions directly to enrollees or the federal government or both. This strategy allows premiums and benefits to remain more stable since income and costs can continue to be matched.

As reserve adjustment strategies, both premium and benefit adjustments are versatile because they can be used to manage virtually any degree of reserve shortfall or excess, and the corrections can be made over 1 or more contract years. Their disadvantage is the rate or benefit fluctuation or both they precipitate, which can lead to abnormal enrollment shifts. When correcting large reserve imbalances, the impact on program stability from enrollment shifts can be minimized by spreading out the adjustment over more than 1 contract year. By comparison, a refund does not force artificial price or benefit variations or both, but it is less versatile. A refund does not have a viable reverse strategy to correct reserve shortfalls. The result of an opposite approach would be a premium surcharge, but it is unlikely that enrollees would be asked to pay additional premiums in a current contract year. To do so would breach an agreement to provide health coverage at a predetermined rate. Furthermore, should refunds be used to correct minor reserve imbalances, administrative costs might consume a sizable portion of the excess reserves available.

Premium and Benefit Changes Easier and Less Costly to Administer

During annual contract negotiations, managing reserves by adjusting future premiums or modifying future benefits is administratively easy to accomplish, at little or no additional cost. By comparison, refunding excess reserves to enrollees is a costly administrative process because additional efforts are required to return the proper funds to each individual involved.

When reserves are adjusted through contract negotiations, the added administrative costs and efforts involved are minimal. Since OPM and the plans annually negotiate benefits and premiums, any reserve adjustments made by changes to benefits or premiums can be easily integrated

into the process. In contrast, distributing the refunds takes place outside of routine administrative tasks, such as printing new brochures and notifying payroll offices of new deductions. Because the refund requires mailing checks to all plan enrollees or suspending payroll deductions in midyear, it involves additional efforts.

One major problem with returning money to individuals is in identifying the individual entitled to receive the payment. OPM and the refunding plans must rely on enrollment files that contain errors. In GAO's past work,[4] we have found significant discrepancies in enrollment data between carriers' and federal agencies' records. For example, agency and carrier records showed differences in the number of enrollees and enrollment codes; incorrect, duplicate, or omitted control numbers; and misspelled names. In the 1985 OPM hearing on the Blue Cross refund proposal, a Mail Handlers health plan official asserted that OPM and other health plan officials are aware of file error rates that typically range from 2 to 4 percent.

To overcome problems with the enrollment files, the 1985 refunding plans established procedures to assure that the proper individuals received refunds. For example, Blue Cross established a toll-free number for enrollees to call, sent out mailings including a refund application for enrollees, and placed notices in newspapers around the country, alerting recipients to the refund. The estimated cost for administering the 1985 Blue Cross refund is more than $5 million.

Overall, the 1985 refund probably cost the FEHBP more than $6 million in administrative costs because 10 additional plans gave refunds. According to an OPM official, the maximum amount allowed each plan to administer the refund was a negotiated percentage of the total amount of its enrollees' refund share. Because plans with smaller refund amounts (primarily smaller plans) would spend about the same amount for certain items as the plans with larger refunds, for example, installing a toll-free telephone line, they were authorized a higher percentage. Among the seven government-wide and employee organization refunding plans, the dollar authorizations ranged from about $10,000 to more than $5 million.[5] The total authorized expense charged to administer the 1985 refund will be paid from each plan's FEHBP reserves.

[4]Errors in Health Benefits Enrollment Data Push Up Health Insurance Costs (FGMSD-80-8, Dec. 6, 1979).

[5]According to the OPM official, the administrative cost authorizations do not include potential costs related to current and former enrollees who are party to a class action lawsuit claiming that they

Other administrative burdens impede the disposal of the government's share of the refund. Left in the contingency reserve, this portion of the reserve surplus is not eliminated. To make refunds to the government effective as a method of disposing of excess reserves, the government's share of the excess in the contingency reserve (including amounts refunded from carriers) would have to be used up or transferred out of the reserve accounts. Giving funds back to the contributing agency would dispose of excess reserves. The government's premium contribution for employees is provided in the employing agency's annual appropriation. The employing agency's payroll office pays the government's share of the employees' premium by transferring the appropriate amount to the employees' health benefits trust fund. The government's premium contribution for annuitants is a separate appropriation requested by OPM. These funds are also transferred to the trust fund.

Since a portion of the government's reserve excess came by way of premium contributions from individual agencies, giving funds back to agencies could be accomplished by adjusting the amount of premium contribution that would be routinely transferred into the trust fund. This strategy uses the reserve excess to offset an equal amount of an agency's insurance premium obligation, thereby relieving the agency appropriation account of an outlay responsibility. There is an added administrative chore associated with this strategy—the proper refund amount for each affected agency would have to be determined to adjust agencies' contributions by the appropriate amounts. This administrative exercise was avoided with the 1985 refund because special legislation stipulated that the government's share of any refunds effected in fiscal years 1986 or 1987 be used to pay its contribution for annuitant enrollees' health benefits.

Adjusting Future Premiums Provides the Fairest Cost Settlement

In our opinion, adjusting future premiums is the least costly and fairest strategy for correcting reserve imbalances. It results in the same cost-sharing between the government and enrollees as would have occurred had premium income matched claims exactly. By comparison, correcting reserves, by either modifying future benefits or giving current year refunds, changes the program cost-sharing and results in inequities. Furthermore, adding future benefits increases the total premium costs.

were wrongfully denied their share of the 1985 refund. A court decision rendered in late October 1986 rejected the enrollees' claim.

Reserve management strategies attempt to settle with the government or enrollees or both for past program imbalances between income and expenses. Once health care claims have been paid for a contract year, OPM and the plans can evaluate the accuracy of their past premiums. Sometimes, the premium income is more than claims; other times it is less. If income is higher than costs, plans do not receive a windfall for the excess income. The excess income is accumulated in reserves that can be returned to contributors—the government and FEHBP enrollees. Similarly, if income falls short of costs, plans do not suffer a permanent loss if they remain in FEHBP. Rather, the contributors will make up the reserve shortfall through increased future contributions or reduced benefits.

To be fair, a reserve adjustment should divide any excess or shortfall equitably (the same way the excess or the shortfall developed) between the government and FEHBP enrollees. If the government and enrollees contributed $50 million each to $100 million in excess plan reserves, it should be returned commensurately. A reserve shortfall should work similarly, if fairly handled.

Our analysis shows that only one reserve adjustment strategy—adjusting future premiums—is fair for both the government and enrollees. Refunds, as administered by OPM in 1985, shortchange enrollees of refund plans and overcompensate enrollees of nonrefunding plans. Modifying future benefits is partial to either the enrollee or to the government. When benefits are added, the enrollee is favored; when benefits are dropped, the enrollee is disadvantaged.

Cost-Sharing in FEHBP

Analyzing how FEHBP costs are affected by reserve decisions and the fairness of the results is complicated by the program's cost-sharing formula. Until 1970, the government contributed a fixed dollar amount, set by law, for each enrollee's health insurance. Since the government's contribution was predetermined, plan premium and benefit decisions (including reserve adjustment strategies) had little effect on the government's costs.

In 1970, the act was amended to add a new cost-sharing formula, which made reserve adjustment strategies influential in determining the government's costs. Rather than specifying the dollar amount of the government's contribution, the Congress adopted a formula that tied the government's contribution to program premiums. In 1974, the Congress set the government's contribution at 60 percent of the simple average

premium of six high option plans—called the Big Six (see footnote 1, p. 10). The law also stipulated that the government contribution could not exceed 75 percent of a plan's premium. As before, each year the government contributes a uniform dollar amount for each enrollee. Not as before, the government's contribution is recalculated annually, based on the premiums and benefits of the Big Six plans. The government's contribution is unaffected when a non-Big Six plan changes its premiums.

Each reserve adjustment strategy affects the government contribution differently and thus creates different program cost-sharing. Future premium adjustments regulate the reserves by adjusting the future government contribution uniformly and, as a result, give equitable treatment. Under a future premium adjustment, the government contribution is modified by 60 percent of the average Big Six premium adjustment. This modification to the government contribution applies uniformly program-wide. For example, if the Big Six average reserve excess was $100 per enrollee, then the government would have overpaid $60 (60 percent of $100) for each enrollee in the program. The next year, if the Big Six plans lowered their premiums (on average by $100 per enrollee) to draw down reserves, the government's contribution also would be lowered by $60. This approach gives a fair correction, not only for the Big Six, but also for the other plans in the program.

In contrast, when future benefits are changed to adjust reserves, neither the government nor the enrollees' premium contribution is adjusted. Under this approach, a $100 average reserve excess by the Big Six would result in a $100 average benefit increase per enrollee. The government, which would have contributed $60 too much for enrollees program-wide (as a result of the Big Six premiums being set higher than costs), recoups none of its overcontribution for any of the plans. On the other hand, enrollees of plans that enhanced benefits get the full value of the added benefits as compensation. Although the government's contribution is not corrected using this approach, whether too high or too low, its contribution remains uniform program-wide.

A refund can create the most unusual deviation from the FEHBP cost-sharing principles. A pro-rata refund works in the following way: The government contribution is adjusted for refunding plans, but not uniformly; the government's percentage share of a plan's refund is the same as its percentage contribution to the plan's premium. For example, suppose the Big Six average reserve excess totaled $100 (e.g., three Big Six plans, each with $200 to refund per enrollee). If the government contributes $60 biweekly (or $1,560 annually) per enrollee for a plan with a

$3,900 annual premium, its contribution is 40 percent of the plan's premium. Therefore, the government's pro-rata refund share would be $80 (40 percent of the $200 refund). If the plan's annual premium is $3,120 and the government contributes $1,560, its pro-rata share of a $200 refund would be $100 (50 percent). Although this situation is analogous to the example above (Big Six average reserve excess totaling $100, with $60 attributed to the government for each plan), the government recoups variable amounts—in one case $80 and another $100—meaning that its contributions differ from one plan to another.

Unlike both premium adjustments and benefit modifications, the government contribution is no longer uniform when reserves are adjusted through a pro-rata refund. Nonrefunding plans return no money to the government so that they retain a full uniform government contribution. Refund plans return a variable amount to the government, causing what was a uniform government contribution to differ among plans.

There is an alternative to the pro-rata refund strategy that minimizes the variation in the government contribution. In our January 1986 report on the FEHBP insurance refund allocation, we recommended that OPM divide refunds using a method that is consistent with the program's cost-sharing principles. Our approach keeps the government contribution consistent among refunding plans whose premiums qualify for a full government contribution (see above for discussion of government contribution); thereby the plans return the same amount to the government and enrollees that each had contributed to the plans' excess reserves. Contrary to our recommendation, OPM and the plans divided the 1985 refund on a pro-rata basis. In table 2.1, the effects of different reserve adjustment strategies are summarized.

Table 2.1: Effects of Various Reserve Strategies on Government Contribution

Reserve adjustment strategy	Effect on government contribution
Adjusting future premiums	Adjusts uniformly
Modifying future benefits	No adjustment—remains uniform
Refunding contributions on a pro-rata basis:	
Plans offering refund	Adjusts variably
Plans not offering refund	No adjustment—remains uniform
Refunding contributions using GAO's method:	
Plans offering refund	Adjusts uniformly[a]
Plans not offering refund	No adjustment—remains uniform

[a]Except for capped premiums where the government contribution is limited to 75 percent of total premium.

Under the FEHBP cost-sharing rules, whatever portion of the premium is not paid by the government must be paid by enrollees. Because each reserve adjustment strategy has a different effect on the government's contribution, enrollees are not treated equally under each strategy. The following case study illustrates some of the differences to the government and to enrollees resulting from the three reserve adjustment strategies.

Comparing the Strategies: A Case Study

To illustrate the cost-sharing differences created by the three reserve adjustment strategies, we used 1985 premiums, enrollment, and excess reserves as a case study. We analyzed the $1.068 billion excess reserves targeted by 11 plans (including three of the Big Six) for refund. We evaluated the differences in program cost-sharing resulting from (1) using the $1 billion to lower premiums, (2) refunding the $1 billion, and (3) adding $1 billion in new benefits. For ease of analysis, we assumed that this $1 billion was total reserve excess available and was generated in a single year.

With hindsight, we could determine what premiums these plans could have charged in 1985 to avoid the accumulation of $1.068 billion reserve surplus. By comparing actual premiums charged in 1985 with the premiums that would have averted a reserve surplus, we could analyze how much the government and enrollees each contributed to the reserve surplus of these 11 plans. Then, we could evaluate the merits of each of the three reserve adjustment strategies.

How did the $1.068 billion reserve surplus arise, and how much did each party contribute? The reserve surplus accumulated because premium income exceeded expenses of the 11 refunding plans. Our analysis showed that $572 million was contributed by the government and $496 million by enrollees. Assuming no excess reserves for other plans implies the remaining premium income and expenses exactly matched. Nevertheless, the government program contribution had been overstated because OPM and three of the Big Six plans had misjudged program costs when setting these plans' premium rates. The misjudgments caused the government to overcontribute for all enrollees, not just those in the refund plans. Therefore, the government also overcontributed about $200 million in premiums for individuals enrolled in plans with no reserve excess.

When disposing of the $1.068 billion excess, would all three reserve adjustment strategies compensate the government and enrollees for the same amount each contributed? We found that

- adjusting future premiums returned the reserve surplus and overcontributions to other plans exactly as they arose;
- refunding on a pro-rata basis made corrections unrelated to how much the government and enrollees contributed to the surplus; and
- adding benefits made no correction for the government and overcompensated enrollees.

The results of our analysis follow:

Adjusting future premiums would return this $1.068 billion excess exactly as it developed. By lowering these 11 plans' future premiums, three of which are Big Six, the government's contribution would be lowered. As a result of the lower contribution, the government would save $572 million in future premiums to the 11 plans. Enrollees of the 11 plans would save the remaining $496 million. Under a premium subsidy, the government's contribution would be lowered for all plans, not just the 11 plans with excess reserves. Because the remaining plans have no excess reserves to lower their future premiums, the enrollee contribution to the premium would be raised to compensate for the reduced government contribution. In our 1985 example, the government's contribution to plans without excess reserves would be lowered by $200 million; the enrollees' contribution would be increased by $200 million. These corrections correspond directly to past overcontributions leading to the reserve excess.

Giving a refund would not divide the reserve excess equitably between the government and enrollees. The results of our case study analysis, using a pro-rata refund, showed that the government would recoup $670 million of the reserve excess held by the 11 plans, $98 million more than it contributed. Enrollees would receive $398 million, $98 million less than the $496 million they contributed. The $200 million government excess contribution for enrollees in plans without reserve excess would not be recouped because there was no correction for the government's excess contribution to nonrefunding plans. Although enrollees would be shortchanged $98 million by the refund, and the government would be overcompensated, there were substantial plan-by-plan variations. According to our case study, enrollees of certain plans received less in refunds than they contributed to the reserve surplus; the government received too much. Enrollees of other plans received more in refunds

than they contributed to the reserve surplus, and the government received too little. In other plans, the refunds were divided appropriately between the government and enrollees.

These discrepancies occurred because the government's contribution varied among the refund plans. For family enrollees of refund plans, the government contribution varied between $925 and $1,336, instead of being uniform. Based on the program cost-sharing intended by the FEHB Act, our analysis indicated that, had no reserves accumulated, the government contribution would have been $1,216. As a result, family enrollees of refund plans receiving a government contribution of less than $1,216 were shortchanged by the refund. Enrollees of plans receiving a government contribution of more than $1,216 benefited by the refund. Enrollees of plans whose premiums did not qualify for the full government contribution (because the government will pay no more than 75 percent of the premium) were fairly treated by the pro-rata refund.

Our case study for 1985 highlighted one other result of the refund—the government recouped none of its past excess contributions to nonrefunding plans, totaling about $200 million. Enrollees of nonrefund plans benefited because the government contribution was not adjusted for these plans. Instead of receiving a fair government contribution of $1,216, these enrollees received contributions of $1,387 toward their health care.

Overall, how equitably does the pro-rata refund return overcontributions pinpointed in our case study? By collecting $98 million too much of the refund from the 11 plans but nothing of the $200 million it overcontributed to the remaining plans, the government would recover $102 million less than its past overcontributions. Enrollees of the refund plans would be shortchanged by $98 million; their counterparts in nonrefund plans would benefit from $200 million more in government contributions. Enrollees of individual plans would fare better or worse under the refund, depending on the government contribution for their plan.

Finally, adding benefits would not return the $1.068 billion excess equitably, according to the results of our case study. Instead, enrollees would be disproportionately favored. In 1985, if OPM and the plans had used the $1 billion reserve excess to add benefits, the government would receive neither its $572 million overcontribution to the 11 plans with reserve excess nor the $200 million overcontribution for the remaining

plans. Enrollees of the 11 plans would gain the added value of new benefits, at least until the reserve excess was depleted, without an increase in their costs for the additional health care. However, the value of the new benefit will not be equally experienced by all plan enrollees. Typically, only a subset of enrollees in each plan actually uses a specific benefit in any given year (e.g., alcohol and drug abuse treatment). Because the government's overcontribution to enrollees of plans without excess reserves would not be corrected, these enrollees would benefit from the government's excess contribution to their premiums.

The results of our comparisons show that adjusting future premiums is the most equitable way of settling with the government and enrollees when adjusting reserves. Furthermore, this reserve adjustment strategy is consistent with the program's cost-sharing principles established by the FEHB Act as amended in 1970. Modifying future benefits does not provide an equitable settlement because it favors either the government or enrollees. Pro-rata refunds partially return overcontributions, but in doing so create inequities.

Conclusions

FEHBP reserve levels have been volatile—some years falling too low for adequate protection, other years rising well above needed surpluses. With the number of uncertainties inherent in estimating health care costs, we doubt that FEHBP premiums can be set accurately enough to avoid reserve fluctuation. Most of the variables that influence program costs can be tracked and measured, but there is always an element of guesswork. Sometimes, the premiums will be accurate; other times, wrong.

Since reserves can be expected to fluctuate, OPM needs to regulate them in a way that avoids program disruptions. Ideally, after-the-fact corrections should be easy to administer and fair to all parties; they should not add unnecessarily to the program's costs. Of the reserve adjustment strategies at OPM's disposal, adjusting future premiums, in our opinion, satisfies these criteria best. Although offering refunds or modifying future benefits may accomplish the desired reserve adjustment, each creates undesirable side-effects—administrative problems with refunds and higher costs and program inequities with both, particularly when a Big Six plan is involved. The disadvantages of these two techniques make them less desirable reserve adjustment strategies.

Matters for Consideration by the Congress

The Congress should consider amending the FEHB Act to prescribe future premium adjustments as the only reserve adjustment strategy. If refunds and benefit modifications are desired reserve adjustment strategies, the Congress should amend the FEHB Act to adjust the government's contribution program-wide when Big Six plans use these strategies.

Recommendation to the Director, OPM

Unless the Congress amends the FEHB Act to provide program-wide adjustments in the government's contribution, the Director of OPM should use future premium adjustments to regulate FEHBP reserves and avoid using refunds and benefit modifications as reserve adjustment strategies.

Agency Comments and Our Evaluation

OPM disagrees with our recommendation to use only future premium adjustments to regulate FEHBP reserves. In OPM's opinion, all three reserve adjustment strategies are valid methods for adjusting reserves; these strategies are specifically contemplated and sanctioned by the FEHB Act. OPM does not want to restrict its reserve adjustment strategies, preferring instead that the Director of OPM have the flexibility to use all approaches to ensure the effective operation of the FEHBP.

We and OPM seem to differ on the criteria for effective reserve adjustments—particularly with respect to equity. In our opinion, reserve adjustments should return any reserve excess or shortfalls, as they developed, to the program contributors so that program cost-sharing can be maintained. OPM disagrees with this approach but does not elaborate on how reserve excess or shortfalls should be divided among program participants.

Although administrative flexibility may be desirable, OPM's strategies for reserve management are not equally effective. From an equity standpoint, reserve adjustment strategies are most effective when cost-sharing is preserved and the government's contribution is adjusted program-wide. Only future premium adjustments accomplish this. Our case study of the 1985 reserve excess showed substantial cost-shifting inequities, when refunds or benefit modifications are used, between the government and enrollees. Although future premium adjustments can lead to premium fluctuations, these adjustments are administratively less cumbersome and costly to the program than refunds or benefit modifications.

enrollees, had the plan terminated, was minimized. However, because APWU is self-insured and did not have adequate reserves in 1981 and 1982, it could have terminated without sufficient assets to cover its liabilities, thereby putting enrollees at risk for their health care costs. By 1985, all six plans had regained a more favorable combined reserve position.

Wide Fluctuation in FEHBP Plans' Special Reserves

Although most of the plans had positive reserve balances during 6 of the 7 years reviewed, they missed their special reserve target in every year. Since special reserves represent a plan's net gain or loss position, which generally is controlled by the preciseness of estimates, we expect the balances to fluctuate. Another factor that could influence reserve fluctuation is enrollment. Volatile enrollment shifts can cause a plan's reserve balance to be sharply out of line with its target level. However, according to an OPM official, a reasonable range of deviation for special reserve balances would generally be within 100 percent of the target. Extreme deviations indicate that premiums were either far off the mark in a single year or marginally high (or low) year after year.

To demonstrate severity of deviations from target levels, using the 19 plans we evaluated, we determined the number of plans whose special reserve balances were within plus or minus 100 percent of the target (modest deviation) and those with more extreme deviations. An extreme deviation (greater than $\pm$ 100 percent) indicates that a plan had a large surplus or deficit special reserve balance. The plans' end-of-year special reserve positions from calendar year 1979 through 1985 are summarized in table II.1. In 5 of 7 years, the majority of the plans' balances were beyond a reasonable range of their target. Most of the extreme deviations below targeted levels occurred in 1981 and above, in 1985. More than 68 percent of the plans' reserve balances fell extremely far below their targets in 1981. However, the reserve deficits experienced by plans in 1981 reversed; in 1985, more than 84 percent of the plans had a significant reserve surplus. Each plan's reserve balance relative to its preferred level is shown in tables II.5 through II.23.

Table II.1: Summary of Carrier-Held Special Reserve Positions (End of Calendar Years 1979-85)

	Number of plans by year						
Reserve position	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**
Plans with deficit balance (>100% below target = Extreme below)	3	6	13	7	4	2	0
Plans with modest but sufficient balance (<100% above/below target = Modest deviation)	6	11	6	11	8	4	3
Plans with large surplus balance (>100% above target = Extreme above)	5	2	0	1	7	13	16[b]
Total number of plans	**14[a]**	**19**	**19**	**19**	**19**	**19**	**19**

[a]Total does not equal 19 because 5 plans in our analysis did not enter the FEHBP until the 1980 contract year.

[b]Includes seven plans that proposed to reduce their 1985 special reserve levels by refunding the excess. Those amounts designated for refunding are included in the 1985 end-of-year balances.

As of December 1985, total FEHBP special reserves held by all carriers amounted to about $1.9 billion. The ceiling imposed on the carrier-held special reserve by the 1986 regulations will restrict the growth in this account in future years.

FEHBP Contingency Reserves Generally Near Preferred Balance

Our comparison of 19 FEHBP plans' contingency reserves held by OPM with the reserves' PMBs showed that generally contingency reserves were within 100 percent of their PMB in every year except 1985. In 1985, more than half the plans had a contingency reserve surplus that was far above the PMB. In the early 1980's, the growth in contingency reserve accounts was constrained, primarily because contingency reserves were transferred to plans that had deficient special or claims reserve accounts or both. Only rarely, however, did OPM allow a plan's contingency reserve balance to be drawn below the PMB.

Because of OPM regulations, plans' contingency reserve balances have generally been above the PMB. We observed two exceptions to this rule: (1) Five new plans that entered the FEHBP in 1980 took several years, using a maximum 3-percent premium surcharge, to reach their contingency reserve PMB. (2) Three plans received transfer payments from the contingency reserve in the 1980-82 time period, which caused their balances to fall below the PMB.

At the end of 1985, total FEHBP contingency reserves held by OPM amounted to more than $1 billion. If FEHBP reserve growth continues, the

usually modest nature of contingency reserve balances may change, partially because of the 1986 regulations. As mentioned above, special reserve amounts that exceed the new limit will be transferred to contingency reserves. Because there is no limit to which contingency reserves can build, program reserve excess that accumulated in special reserves will accumulate now in contingency reserves.

19 FEHBP Health Plans' Reserves Balances and Preferred Levels, Calendar Years 1979-85

Explanatory Notes to Accompany Tables on FEHBP (Tables II.2-II.23)

Payments to carrier—The total semimonthly premiums paid to carriers during the year. This amount does not include contingency reserve transfer payments. Payments to carriers are also referred to as subscription charges.

PMB—A regulated requirement for the minimum level of contingency reserves held for individual plans. The PMB in the contingency reserve is equal to 1 month's premiums paid to carriers.[1]

OPM target levels for special reserves—The special reserve targeted (preferred) level for individual plans. The targeted special reserve balances by plan type are as follows:

- Government-wide: 1/2 month's premium.[2]
- Self-insured: 1-1/2 months' premiums.
- Underwritten: 1 month's premium.

OPM target for contingency and special reserves combined—The target for the contingency and special reserves balances combined for each plan. The target balances by plan type are as follows:

- Government-wide: 1-1/2 months' premiums.

[1]During 1986, OPM regulations changed the PMB requirements.

[2]Government-wide plans' target increased, starting in 1986.

- Self-insured: 2-1/2 months' premiums.
- Underwritten: 2 months' premiums.

Claims reserves—Experience-rated carriers are responsible for separately accounting for all income and expenses related to the FEHBP. In accordance with accrual accounting, carriers estimate the amount of incurred claims that have not been paid and hold this amount in an accrued claims reserve for making payments when the claims are submitted. We obtained claims reserve balances, but this carrier account was not analyzed during our review.

Carrier-held reserves—The combined totals of the special reserves and claims reserves that represent the total reserves held by each experience-rated carrier for the FEHBP.

1985 special reserve balances—The estimated 1985 special reserve balances include the excess reserves slated for refund to enrollees and the government. Seven of the 19 plans (BC/BS, Aetna, AFGE, Foreign Service, GEBA, GEHA, and NALC) offered a refund totaling $1,058,638,000. The remainder of the total amount refunded, $9,708,000, is included in 1985 special reserve totals for FEHBP.

Five employee organization plans (NAGE, NAPUS, NFFE, NTEU, and Postal Supervisors)—These did not enter the FEHBP until January 1980; therefore, zero (0) balances are entered in 1979.

Dollar amounts—These are rounded to the nearest dollar.

Table II.2: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Government-Wide Plans' Combined Totals**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$2,002,415,660	$2,172,647,155	$2,522,662,511	$2,797,622,888	$2,884,606,002	$3,078,960,475	$2,965,082,000
Contingency reserve ending balance	260,989,908	260,790,075	239,385,290	250,785,599	252,453,002	408,573,705	584,048,000
PMB[a]	166,867,972	181,053,930	210,221,876	233,135,241	240,383,834	256,580,040	247,090,167
Difference ($)	$94,121,936	$79,736,145	$29,163,414	$17,650,358	$12,069,168	$151,993,665	$336,957,833
Percent (difference/ PMB)	56.41%	44.04%	13.87%	7.57%	5.02%	59.24%	136.37%
Special reserve ending balance	$269,260,702	$107,251,062	$(150,686,143)	$18,041,176	$435,765,318	$887,621,831	$1,111,306,000
OPM target level	83,433,986	90,526,965	105,110,938	116,567,620	120,191,917	128,290,020	123,545,083
Difference ($)	$185,826,716	$16,724,097	$(255,797,081)	$(98,526,444)	$315,573,401	$759,331,811	$987,760,917
Percent (difference/ target)	222.72%	18.47%	−243.36%	−84.52%	262.56%	591.89%	799.51%
Contingency + special reserves	$530,250,610	$368,041,137	$88,699,147	$268,826,775	$688,218,320	$1,296,195,536	$1,695,354,000
OPM target level	250,301,957	271,580,894	315,332,814	349,702,861	360,575,750	384,870,059	370,635,250
Difference ($)	$279,948,653	$96,460,243	$(226,633,667)	$(80,876,086)	$327,642,570	$911,325,477	$1,324,718,750
Percent (difference/ target)	111.84%	35.52%	−71.87%	−23.13%	90.87%	236.79%	357.42%
Claims reserve ending balance	$533,636,000	$596,134,000	$654,660,000	$635,418,166	$632,556,267	$662,640,000	$684,967,000
Carrier-held reserves (special + claims)	802,896,702	703,385,062	503,973,857	653,459,342	1,068,321,585	1,550,261,831	1,796,273,000

[a]PMB refers to preferred minimum balance.

Table II.3: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85)**: Self-Insured Plans' Combined Totals**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$447,681,998	$513,186,216	$627,440,467	$760,396,409	$1,045,693,488	$1,193,809,561	$1,110,151,000
Contingency reserve ending balance	63,264,538	69,060,594	79,343,903	74,604,222	138,055,362	153,973,696	206,466,000
PMB[a]	37,306,833	42,765,518	52,286,706	63,366,367	87,141,124	99,484,130	92,512,583
Difference ($)	$25,957,705	$26,295,076	$27,057,197	$11,237,855	$50,914,238	$54,489,566	$113,953,417
Percent (difference/PMB)	69.58%	61.49%	51.75%	17.73%	58.43%	54.77%	123.18%
Special reserve ending balance	$34,511,840	$(21,785,880)	$(91,865,006)	$(52,180,869)	$41,957,591	$299,844,399	$364,410,000
OPM target level	55,960,250	64,148,277	78,430,058	95,049,551	130,711,686	149,226,195	138,768,875
Difference ($)	$(21,448,410)	$(85,934,157)	$(170,295,064)	$(147,230,420)	$(88,754,095)	$150,618,204	$225,641,125
Percent (difference/target)	−38.33%	−133.96%	−217.13%	−154.90%	−67.90%	100.93%	162.60%
Contingency + special reserves	$97,776,378	$47,274,714	$(12,521,103)	$22,423,353	$180,012,953	$453,818,095	$570,876,000
OPM target level	93,267,083	106,913,795	130,716,764	158,415,919	217,852,810	248,710,325	231,281,458
Difference ($)	$4,509,295	$(59,639,081)	$(143,237,867)	$(135,992,566)	$(37,839,857)	$205,107,770	$339,594,542
Percent (difference/target)	4.83%	−55.78%	−109.58%	−85.85%	−17.37%	82.47%	146.83%
Claims reserve ending balance	$124,090,919	$155,981,566	$210,649,455	$214,239,515	$267,955,437	$261,333,056	$275,699,000
Carrier-held reserves (special + claims)	150,602,759	134,195,686	118,784,449	162,058,646	309,913,028	561,177,455	640,109,000

[a]PMB refers to preferred minimum balance.

Table II.4: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85)**: Underwritten Plans' Combined Totals**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$314,813,428	$419,375,611	$562,087,090	$783,240,035	$1,084,010,973	$1,286,721,627	$1,355,179,000
Contingency reserve ending balance	42,429,649	51,913,724	45,519,319	68,872,375	119,807,923	145,339,505	211,223,000
PMB[a]	26,234,452	34,947,968	46,840,591	65,270,003	90,334,248	107,226,802	112,931,583
Difference ($)	$16,195,197	$16,965,756	$(1,321,272)	$3,602,372	$29,473,675	$38,112,703	$98,291,417
Percent (difference/ PMB)	61.73%	48.55%	−2.82%	5.52%	32.63%	35.54%	87.04%
Special reserve ending balance	$28,900,113	$(11,558,427)	$(61,348,251)	$(24,839,816)	$112,582,300	$263,303,415	$385,437,000
OPM target level	26,234,452	34,947,968	46,840,591	65,270,003	90,334,248	107,226,802	112,931,583
Difference ($)	$2,665,661	$(46,506,395)	$(108,188,842)	$90,109,819	$22,248,052	$156,076,613	$272,505,417
Percent (difference/ target)	10.16%	−133.07%	−230.97%	−138.06%	24.63%	145.56%	241.30%
Contingency + special reserves	$71,329,762	$40,355,297	$(15,828,932)	$44,032,559	$232,390,223	$408,642,920	596,660,000
OPM target level	52,468,905	69,895,935	93,681,182	130,540,006	180,668,495	$214,453,604	$225,863,167
Difference ($)	$18,860,857	$(29,540,638)	$(109,510,114)	$(86,507,447)	$51,721,728	$194,189,316	$370,796,833
Percent (difference/ target)	35.95%	−42.26%	−116.90%	−66.27%	28.63%	90.55%	164.17%
Claims reserve ending balance	$86,578,883	$117,298,947	$161,690,878	$213,201,218	$223,165,320	$251,105,566	$232,691,000
Carrier-held reserves (special + claims)	115,478,996	105,740,520	100,342,627	188,361,402	335,747,620	514,408,981	618,128,000

[a]PMB refers to preferred minimum balance.

Table II.5: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Aetna**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$340,128,915	$363,286,142	$474,641,416	$455,336,232	$552,468,315	$595,731,991	$538,455,000
Contingency reserve ending balance	107,083,938	95,989,138	56,247,769	39,802,694	49,134,196	79,123,332	111,305,000
PMB[a]	28,344,076	30,273,845	39,553,451	37,944,686	46,039,026	49,644,333	44,871,250
Difference ($)	$78,739,862	$65,715,293	$16,694,318	$1,858,008	$3,095,170	$29,478,999	$66,433,750
Percent (difference/PMB)	277.80%	217.07%	42.21%	4.90%	6.72%	59.38%	148.05%
Special reserve ending balance	$26,487,661	$4,818,202	$8,459	$4,132,289	$44,047,882	$148,255,536	$177,089,000
OPM target level	14,172,038	15,136,923	19,776,726	18,972,343	23,019,513	24,822,166	22,435,625
Difference ($)	$12,315,623	$(10,318,721)	$(19,768,267)	$(14,840,054)	$21,028,369	$123,433,370	$154,653,375
Percent (difference/target)	86.90%	−68.17%	−99.96%	−78.22%	91.35%	497.27%	689.32%
Contingency + special reserves	$133,571,599	$100,807,340	$56,256,228	$43,934,983	$93,182,078	$227,378,868	$288,394,000
OPM target level	42,516,114	45,410,768	59,330,177	56,917,029	69,058,539	74,466,499	67,306,875
Difference ($)	$91,055,485	$55,396,572	$(3,073,949)	$(12,982,046)	$24,123,539	$152,912,369	$221,087,125
Percent (difference/target)	214.17%	121.99%	−5.18%	−22.81%	34.93%	205.34%	328.48%
Claims reserve ending balance	$105,446,000	$118,154,000	$124,770,000	$140,228,166	$154,266,267	$136,900,000	$136,563,000
Carrier-held reserves (special + claims)	131,933,661	122,972,202	124,778,459	144,360,455	198,314,149	285,155,536	313,652,000

[a]PMB refers to preferred minimum balance.

Table II.6: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **AFGE**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$23,505,489	$33,325,763	$46,517,982	$57,330,775	$69,791,648	$68,741,120	$60,264,000
Contingency reserve ending balance	3,918,887	3,039,637	4,178,965	5,443,518	7,619,539	8,232,872	11,802,000
PMB[a]	1,958,791	2,777,147	3,876,499	4,777,565	5,815,971	5,728,427	5,022,000
Difference ($)	$1,960,096	$262,490	$302,467	$665,953	$1,803,568	$2,504,445	$6,780,000
Percent (difference/PMB)	100.07%	9.45%	7.80%	13.94%	31.01%	43.72%	135.01%
Special reserve ending balance	$1,362,373	$2,044,708	$(2,479,159)	$2,737,983	$8,287,055	$7,592,783	$15,758,000
OPM target level	1,958,791	2,777,147	3,876,499	4,777,565	5,815,971	5,728,427	5,022,000
Difference ($)	$(596,418)	$(732,439)	$(6,355,658)	$(2,039,582)	$2,471,084	$1,864,356	$10,736,000
Percent (difference/target)	−30.45%	−26.37%	−163.95%	−42.69%	42.49%	32.55%	213.78%
Contingency + special reserves	$5,281,260	$5,084,345	$1,699,806	$8,181,501	$15,906,594	$15,825,655	$27,560,000
OPM target level	3,917,581	5,554,294	7,752,997	9,555,129	11,631,941	11,456,853	10,044,000
Difference ($)	$1,363,679	$(469,949)	$(6,053,191)	$(1,373,628)	$4,274,653	$4,368,802	$17,516,000
Percent (difference/target)	34.81%	−8.46%	−78.08%	−14.38%	36.75%	38.13%	174.39%
Claims reserve ending balance	$8,372,078	$11,855,257	$12,956,692	$13,680,000	$19,000,000	$20,827,000	$12,411,000
Carrier-held reserves (special + claims)	9,734,451	13,899,965	10,477,533	16,417,983	27,287,055	28,419,783	28,169,000

[a]PMB refers to preferred minimum balance.

Table II.7: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Alliance**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$96,747,575	$106,885,157	$109,132,685	$115,768,261	$73,774,481	$74,664,921	$74,222,000
Contingency reserve ending balance	11,977,594	7,520,993	5,677,757	11,361,544	8,318,243	6,581,541	10,129,000
PMB[a]	8,062,298	8,907,096	9,094,390	9,647,355	6,147,873	6,222,077	6,185,167
Difference ($)	$3,915,296	$(1,386,103)	$(3,416,633)	$1,714,189	$2,170,370	$359,464	$3,943,833
Percent (difference/PMB)	48.56%	−15.56%	−37.57%	17.77%	35.30%	5.78%	63.76%
Special reserve ending balance	$(2,682,394)	$(11,379,555)	$(24,239,958)	$(12,578,583)	$(1,940,326)	$3,844,678	$12,582,000
OPM target level	8,062,298	8,907,096	9,094,390	9,647,355	6,147,873	6,222,077	6,185,167
Difference ($)	$(10,744,692)	(20,286,651)	$(33,334,348)	$(22,225,938)	(8,088,199)	(2,377,399)	$6,396,833
Percent (difference/target)	−133.27%	−227.76%	−366.54%	−230.38%	−131.56%	−38.21%	103.42%
Contingency + special reserves	$9,295,200	$(3,858,562)	$(18,562,201)	$(1,217,039)	$6,377,917	$10,426,219	$22,711,000
OPM target level	16,124,596	17,814,193	18,188,781	19,294,710	12,295,747	12,444,153	12,370,333
Difference ($)	$(6,829,396)	$(21,672,755)	$(36,750,982)	$(20,511,749)	$(5,917,830)	$(2,017,934)	$10,340,667
Percent (difference/target)	−42.35%	−121.66%	−202.05%	−106.31%	−48.13%	−16.22%	83.59%
Claims reserve ending balance	$27,507,030	$31,288,397	$28,887,622	$20,610,000	$15,500,000	$14,813,500	$12,357,000
Carrier-held reserves (special + claims)	24,824,636	19,908,842	4,647,664	8,031,417	13,559,674	18,658,178	24,939,000

[a]PMB refers to preferred minimum balance

Table II.8: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **APWU**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$206,117,751	$232,081,641	$269,294,465	$296,970,882	$284,960,228	$260,989,292	$209,119,000
Contingency reserve ending balance	26,544,365	29,794,333	35,191,184	18,664,158	39,660,593	39,404,445	40,820,000
PMB[a]	17,176,479	19,340,137	22,441,205	24,747,573	23,746,686	21,749,108	17,426,583
Difference ($)	$9,367,886	$10,454,196	$12,749,979	$(6,083,415)	$15,913,907	$17,655,337	$23,393,417
Percent (difference/PMB)	54.54%	54.05%	56.82%	−24.58%	67.02%	81.18%	134.24%
Special reserve ending balance	$14,260,522	$(26,838,552)	$(72,088,409)	$(54,139,588)	$(32,873,017)	$32,052,498	$63,540,000
OPM target level	25,764,719	29,010,205	33,661,808	37,121,360	35,620,029	32,623,662	26,139,875
Difference ($)	$(11,504,197)	$(55,848,757)	$(105,750,217)	$(91,260,948)	$(68,493,046)	$(571,164)	$37,400,125
Percent (difference/target)	−44.65%	−192.51%	−314.15%	−245.84%	−192.29%	−1.75%	143.08%
Contingency + special reserves	$40,804,887	$2,955,781	$(36,897,225)	$(35,475,430)	$6,787,576	$71,456,943	$104,360,000
OPM target level	$42,941,198	$48,350,342	$56,103,014	$61,868,934	$59,366,714	$54,372,769	$43,566,458
Difference ($)	$(2,136,311)	$(45,394,561)	$(93,000,239)	$(97,344,364)	$(52,579,138)	$17,084,174	$60,793,542
Percent (difference/target)	−4.97%	−93.89%	−165.77%	−157.34%	−88.57%	31.42%	139.54%
Claims reserve ending balance	$57,800,000	$76,900,000	$111,000,000	$89,000,000	$88,500,000	$61,000,000	$52,234,000
Carrier-held reserves (special + claims)	72,060,522	50,061,448	38,911,591	34,860,412	55,626,983	93,052,498	115,774,000

[a]PMB refers to preferred minimum balance.

Table II.9: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **BC/BS**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$1,662,286,745	$1,809,361,013	$2,048,021,095	$2,342,286,656	$2,332,137,687	$2,483,228,484	$2,426,627,000
Contingency reserve ending balance	153,905,970	164,800,937	183,137,521	210,982,905	203,318,806	329,450,373	472,743,000
PMB[a]	138,523,895	150,780,084	170,668,425	195,190,555	194,344,807	206,935,707	202,218,917
Difference ($)	$15,382,075	$14,020,853	$12,469,096	$15,792,350	$8,973,999	$122,514,666	$270,524,083
Percent (difference/ PMB)	11.10%	9.30%	7.31%	8.09%	4.62%	59.20%	133.78%
Special reserve ending balance	$242,773,041	$102,432,860	$(150,694,602)	$13,908,887	$391,717,436	$739,366,295	$934,217,000
OPM target level	69,261,948	75,390,042	85,334,212	97,595,277	97,172,404	103,467,853	101,109,458
Difference ($)	$173,511,093	$27,042,818	$(236,028,814)	$(83,686,390)	$294,545,032	$635,898,442	$833,107,542
Percent (difference/ target)	250.51%	35.87%	−276.59%	−85.75%	303.12%	614.59%	823.97%
Contingency + special reserves	$396,679,011	$267,233,797	$32,442,919	$224,891,792	$595,036,242	$1,068,816,668	$1,406,960,000
OPM target level	207,785,843	226,170,127	256,002,637	292,785,832	291,517,211	310,403,560	303,328,375
Difference ($)	$188,893,168	$41,063,670	$(223,559,718)	$(67,894,040)	$303,519,031	$758,413,108	$1,103,631,625
Percent (difference/ target)	90.91%	18.16%	−87.33%	−23.19%	104.12%	244.33%	363.84%
Claims reserve ending balance	$428,190,000	$477,980,000	$529,890,000	$495,190,000	$478,290,000	$525,740,000	$548,404,000
Carrier-held reserves (special + claims)	670,963,041	580,412,860	379,195,398	509,098,887	870,007,436	1,265,106,295	1,482,621,000

[a]PMB refers to preferred minimum balance.

Table II.10: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85)**: Foreign Service**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$10,042,097	$10,076,983	$12,275,222	$15,386,044	$16,723,250	$18,229,987	$18,287,000
Contingency reserve ending balance	1,385,949	1,948,722	1,247,831	1,651,189	3,034,649	4,291,128	5,604,000
PMB[a]	836,841	839,749	1,022,935	1,282,170	1,393,604	1,519,166	1,523,917
Difference ($)	$549,108	$1,108,973	$224,896	$369,019	$1,641,045	$2,771,962	$4,080,083
Percent (difference/PMB)	65.62%	132.06%	21.99%	28.78%	117.76%	182.47%	267.74%
Special reserve ending balance	$2,540,285	$(748,259)	$(158,197)	$1,677,563	$3,903,869	$7,000,665	$6,682,000
OPM target level	836,841	839,749	1,022,935	1,282,170	1,393,604	1,519,166	1,523,917
Difference ($)	$1,703,444	$(1,588,008)	$(1,181,132)	$395,393	$2,510,265	$5,481,499	$5,158,083
Percent (difference/target)	203.56%	−189.11%	−115.47%	30.84%	180.13%	360.82%	338.48%
Contingency + special reserves	$3,926,234	$1,200,463	$1,089,634	$3,328,752	$6,938,518	$11,291,793	$12,286,000
OPM target level	1,673,683	1,679,497	2,045,870	2,564,341	2,787,208	3,038,331	3,047,833
Difference ($)	$2,252,551	$(479,034)	$(956,236)	$764,411	$4,151,310	$8,253,462	$9,238,167
Percent (difference/target)	134.59%	−28.52%	−46.74%	29.81%	148.94%	271.64%	303.11%
Claims reserve ending balance	$3,386,667	$4,674,959	$4,720,004	$4,590,000	$4,500,000	$4,800,000	$5,541,000
Carrier-held reserves (special + claims)	5,926,952	3,926,700	4,561,807	6,267,563	8,403,869	11,800,665	12,223,000

[a]PMB refers to preferred minimum balance.

Table II.11: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **GEBA**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$5,189,862	$5,615,963	$6,291,443	$8,296,338	$9,376,106	$9,296,980	$9,149,000
Contingency reserve ending balance	417,884	709,551	677,892	797,222	806,445	857,865	1,311,000
PMB[a]	432,489	467,997	524,287	691,361	781,342	774,748	762,417
Difference ($)	$(14,605)	$241,554	$153,605	$105,861	$25,103	$83,117	$548,583
Percent (difference/PMB)	−3.38%	51.61%	29.30%	15.31%	3.21%	10.73%	71.95%
Special reserve ending balance	$(208,389)	$(1,909,554)	$(3,389,935)	$(2,120,210)	$(1,878,391)	$1,608,938	$1,637,000
OPM target level	432,489	467,997	524,287	691,361	781,342	774,748	762,417
Difference ($)	$(640,878)	$(2,377,551)	$(3,914,222)	$(2,811,571)	$(2,659,733)	$834,190	$874,583
Percent (difference/target)	−148.18%	−508.03%	−746.58%	−406.67%	−340.41%	107.67%	114.71%
Contingency + special reserves	$209,495	$(1,200,003)	$(2,712,043)	$(1,322,988)	$(1,071,946)	$2,466,803	$2,948,000
OPM target level	864,977	935,994	1,048,574	1,382,723	1,562,684	1,549,497	1,524,833
Difference ($)	$(655,482)	$(2,135,997)	$(3,760,617)	$(2,705,711)	$(2,634,630)	$917,306	$1,423,167
Percent (difference/target)	−75.78%	−228.21%	−358.64%	−195.68%	−168.60%	59.20%	93.33%
Claims reserve ending balance	$1,119,458	$1,652,285	$2,066,570	$1,757,200	$2,050,000	$1,913,000	$1,652,000
Carrier-held reserves (special + claims)	911,069	(257,269)	(1,323,365)	(363,010)	171,609	3,521,938	3,289,000

[a]PMB refers to preferred minimum balance

Table II.12: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **GEHA**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$52,841,656	$77,221,746	$107,168,307	$134,325,311	$296,487,465	$470,894,223	$501,006,000
Contingency reserve ending balance	8,938,602	12,626,569	12,669,559	16,400,084	36,889,367	49,407,247	75,599,000
PMB[a]	4,903,471	6,435,145	8,930,692	11,193,776	24,707,289	39,241,185	41,750,500
Difference ($)	$4,035,131	$6,191,424	$3,738,867	$5,206,308	$12,182,078	$10,166,062	$33,848,500
Percent (difference/PMB)	82.29%	96.21%	41.87%	46.51%	49.31%	25.91%	81.07%
Special reserve ending balance	$8,082,105	$2,051,777	$(6,416,868)	$16,176,743	$46,697,879	$135,154,704	$165,971,000
OPM target level	7,355,207	9,652,718	13,396,038	16,790,664	37,060,933	58,861,778	62,625,750
Difference ($)	$726,898	$(7,600,941)	$(19,812,906)	$(613,921)	$9,636,946	$76,292,926	$103,345,250
Percent (difference/target)	9.88%	−78.74%	−147.90%	−3.66%	26.00%	129.61%	165.02%
Contingency + special reserves	$17,020,707	$14,678,346	$6,252,691	$32,576,827	$83,587,246	$184,561,951	$241,570,000
OPM target level	12,258,678	16,087,864	22,326,731	27,984,440	61,768,222	98,102,963	104,376,250
Difference ($)	$4,762,029	$(1,409,518)	$(16,074,040)	$4,592,387	$21,819,024	$86,458,988	$137,193,750
Percent (difference/target)	38.85%	−8.76%	−71.99%	16.41%	35.32%	88.13%	131.44%
Claims reserve ending balance	$16,401,963	$22,561,528	$31,052,518	$28,067,535	$65,832,757	$96,423,455	$119,263,000
Carrier-held reserves (special + claims)	24,484,068	24,613,305	24,635,650	44,244,278	112,530,636	231,578,159	285,234,000

[a]PMB refers to preferred minimum balance.

Table II.13: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85)**: Mail Handlers**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$59,772,011	$89,700,148	$138,622,579	$230,408,453	$445,056,801	$589,435,806	$654,665,000
Contingency reserve ending balance	8,292,275	13,286,401	15,804,527	24,659,413	55,088,745	69,816,845	99,259,000
PMB[a]	4,981,001	7,475,012	11,551,882	19,200,704	37,088,067	49,119,651	54,555,417
Difference ($)	$3,311,274	$5,811,389	$4,252,645	$5,458,709	$18,000,678	$20,697,194	$44,703,583
Percent (difference/PMB)	66.48%	77.74%	36.81%	28.43%	48.53%	42.14%	81.94%
Special reserve ending balance	$14,902,195	$8,581,460	$(1,560,062)	$2,385,127	$68,668,764	$155,945,048	$221,568,000
OPM target level	4,981,001	7,475,012	11,551,882	19,200,704	37,088,067	49,119,651	54,555,417
Difference ($)	$9,921,194	$1,106,448	$(13,111,944)	$(16,815,577)	$31,580,697	$106,825,397	$167,012,583
Percent (difference/target)	199.18%	14.80%	−113.50%	−87.58%	85.15%	217.48%	306.13%
Contingency + special reserves	$23,194,470	$21,867,861	$14,244,465	$27,044,540	$123,757,509	$225,761,893	$320,827,000
OPM target level	9,962,002	14,950,025	23,103,763	38,401,409	74,176,133	98,239,301	109,110,833
Difference ($)	$13,232,468	$6,917,836	$(8,859,298)	$(11,356,869)	$49,581,376	$127,522,592	$211,716,167
Percent (difference/target)	132.83%	46.27%	−38.35%	−29.57%	66.84%	129.81%	194.04%
Claims reserve ending balance	$18,932,000	$26,475,000	$42,200,000	$75,000,000	$84,200,000	$95,000,000	$92,356,000
Carrier-held reserves (special + claims)	33,834,195	35,056,460	40,639,938	77,385,127	152,868,764	250,945,048	313,924,000

[a]PMB refers to preferred minimum balance.

Table II.14: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **NAGE**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$0	$4,636,067	$9,811,327	$34,995,093	$62,593,335	$42,636,592	$36,482,000
Contingency reserve ending balance	0	204,625	660,166	1,834,646	5,217,861	4,466,574	5,323,000
PMB[a]	0	386,339	817,611	2,916,258	5,216,111	3,553,049	3,040,167
Difference ($)	$0	$(181,714)	$(157,445)	$(1,081,612)	$1,750	$913,525	$2,282,833
Percent (difference/PMB)		−47.03%	−19.26%	−37.09%	0.03%	25.71%	75.09%
Special reserve ending balance	$0	$(839,788)	$(3,089,950)	$(3,315,772)	$2,819,571	$8,158,461	$9,618,000
OPM target level	0	386,339	817,611	2,916,258	5,216,111	3,553,049	3,040,167
Difference ($)	$0	$(1,226,127)	$(3,907,561)	$(6,232,030)	$(2,396,540)	$4,605,412	$6,577,833
Percent (difference/target)		−317.37%	−477.92%	−213.70%	−45.94%	129.62%	216.36%
Contingency + special reserves	$0	$(635,163)	$(2,429,784)	$(1,481,126)	$8,037,432	$12,625,035	$14,941,000
OPM target level	0	772,678	1,635,221	5,832,515	10,432,222	7,106,099	6,080,333
Difference ($)	$0	$(1,407,841)	$(4,065,005)	$(7,313,641)	$(2,394,790)	$5,518,936	$8,860,667
Percent (difference/target)	0	−182.20%	−248.59%	−125.39%	−22.96%	77.66%	145.73%
Claims reserve ending balance	$0	$1,328,000	$2,700,000	$15,000,000	$9,000,000	$5,500,000	$5,110,000
Carrier-held reserves (special + claims)	0	488,212	(389,950)	11,684,228	11,819,571	13,658,461	14,728,000

[a]PMB refers to preferred minimum balance.

Table II.15: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **NALC**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$182,722,591	$203,882,829	$250,977,695	$329,100,216	$464,245,795	$461,926,046	$400,026,000
Contingency reserve ending balance	27,781,571	26,639,692	31,483,160	39,539,980	61,505,402	65,162,004	90,047,000
PMB[a]	15,226,883	16,990,236	20,914,808	27,425,018	38,687,150	38,493,837	33,335,500
Difference ($)	$12,554,688	$9,649,456	$10,568,352	$12,114,962	$22,818,252	$26,668,167	$56,711,500
Percent (difference/PMB)	82.45%	56.79%	50.53%	44.17%	58.98%	69.28%	170.12%
Special reserve ending balance	$12,169,213	$3,000,895	$(13,359,729)	$(14,218,024)	$28,132,729	$132,637,197	$134,899,000
OPM target level	22,840,324	25,485,354	31,372,212	41,137,527	58,030,724	57,740,756	50,003,250
Difference ($)	$(10,671,111)	$(22,484,459)	$(44,731,941)	$(55,355,551)	$(29,897,995)	$74,896,441	$84,895,750
Percent (difference/target)	−46.72%	−88.23%	−142.58%	−134.56%	−51.52%	129.71%	169.78%
Contingency + special reserves	$39,950,784	$29,640,587	$18,123,431	$25,321,956	$89,638,131	$197,799,201	$224,946,000
OPM target level	38,067,206	42,475,589	52,287,020	68,562,545	96,717,874	96,234,593	83,338,750
Difference ($)	$1,883,578	$(12,835,002)	$(34,163,589)	$(43,240,589)	$(7,079,743)	$101,564,608	$141,607,250
Percent (difference/target)	4.95%	−30.22%	−65.34%	−63.07%	−7.32%	105.54%	169.92%
Claims reserve ending balance	$49,888,956	$56,520,038	$68,596,937	$97,171,980	$113,622,680	$103,909,601	$104,202,000
Carrier-held reserves (special + claims)	62,058,169	59,520,933	55,237,208	82,953,956	141,755,409	236,546,798	239,101,000

[a]PMB refers to preferred minimum balance

Table II.16: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **NAPUS**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$0	$946,262	$3,856,344	$7,502,470	$22,656,358	$30,120,907	$38,205,000
Contingency reserve ending balance	0	41,121	216,799	609,117	2,314,143	3,929,583	5,970,000
PMB[a]	0	78,855	321,362	625,206	1,888,030	2,510,076	3,183,750
Difference ($)	$0	$(37,734)	$(104,563)	$(16,089)	$426,113	$1,419,507	$2,786,250
Percent (difference/PMB)		−47.85%	−32.54%	−2.57%	22.57%	56.55%	87.51%
Special reserve ending balance	$0	$221,856	$509,198	$842,560	$3,950,795	$(391,107)	$5,981,000
OPM target level	0	78,855	321,362	625,206	1,888,030	2,510,076	3,183,750
Difference ($)	$0	$143,001	$187,836	$217,354	$2,062,765	$(2,901,183)	$2,797,250
Percent (difference/target)		181.35%	58.45%	34.77%	109.25%	−115.58%	87.86%
Contingency + special reserves	$0	$262,977	$725,997	$1,451,677	$6,264,938	$3,538,476	$11,951,000
OPM target level	0	157,710	642,724	1,250,412	3,776,060	5,020,151	6,367,500
Difference ($)	$0	$105,267	$83,273	$201,265	$2,488,878	$(1,481,675)	$5,583,500
Percent (difference/target)	0	66.75%	12.96%	16.10%	65.91%	−29.51%	87.69%
Claims reserve ending balance	$0	$400,521	$1,964,261	$5,295,749	$8,565,000	$14,465,000	$12,558,000
Carrier-held reserves (special + claims)	0	622,377	2,473,459	6,138,309	12,515,795	14,073,893	18,539,000

[a]PMB refers to preferred minimum balance.

Table II.17: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **NFFE**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$0	$1,924,899	$6,217,628	$16,278,981	$25,420,579	$51,385,518	$44,041,000
Contingency reserve ending balance	0	85,379	370,036	1,209,366	2,960,723	4,647,351	7,032,000
PMB[a]	$0	$160,408	$518,136	$1,356,582	$2,118,382	$4,282,126	$3,670,083
Difference ($)	$0	$(75,029)	$(148,100)	$(147,216)	$842,341	$365,225	$3,361,917
Percent (difference/PMB)		−46.77%	−28.58%	−10.85%	39.76%	8.53%	91.60%
Special reserve ending balance	$0	$85,019	$98,398	$761,755	$3,181,956	$296,650	$7,925,000
OPM target level	0	160,408	518,136	1,356,582	2,118,382	4,282,126	3,670,083
Difference ($)	$0	$(75,389)	$(419,738)	$(594,827)	$1,063,574	$(3,985,476)	$4,254,917
Percent (difference/target)		−47.00%	−81.01%	−43.85%	50.21%	−93.07%	115.94%
Contingency + special reserves	$0	$170,398	$468,434	$1,971,121	$6,142,679	$4,944,001	$14,957,000
OPM target level	0	320,816	1,036,271	2,713,164	4,236,763	8,564,253	7,340,167
Difference ($)	$0	$(150,418)	$(567,837)	$(742,043)	$1,905,916	$(3,620,252)	$7,616,833
Percent (difference/target)	0	−46.89%	−54.80%	−27.35%	44.99%	−42.27%	103.77%
Claims reserve ending balance	$0	$510,091	$1,389,135	$5,428,150	$4,981,831	$15,106,588	$9,093,000
Carrier-held reserves (special + claims)	0	595,110	1,487,533	6,189,905	8,163,787	15,403,238	17,018,000

[a]PMB refers to preferred minimum balance.

Table II.18: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **NTEU**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$0	$4,776,263	$11,441,210	$18,018,237	$15,397,827	$11,521,033	$13,699,000
Contingency reserve ending balance	0	209,240	737,185	1,648,679	2,669,927	1,983,836	2,740,000
PMB[a]	0	398,022	953,434	1,501,520	1,283,152	960,086	1,141,583
Difference ($)	$0	$(188,782)	$(216,249)	$147,159	$1,386,775	$1,023,750	$1,598,417
Percent (difference/PMB)		−47.43%	−22.68%	9.80%	108.08%	106.63%	140.02%
Special reserve ending balance	$0	$139,463	$(1,013,636)	$(855,476)	$747,239	$2,946,660	$1,911,000
OPM target level	0	398,022	953,434	1,501,520	1,283,152	960,086	1,141,583
Difference ($)	$0	$(258,559)	$(1,967,070)	$(2,356,996)	$(535,913)	$1,986,574	$769,417
Percent (difference/target)		−64.96%	−206.31%	−156.97%	−41.77%	206.92%	67.40%
Contingency + special reserves	$0	$348,703	$(276,451)	$793,203	$3,417,166	$4,930,496	$4,651,000
OPM target level	0	796,044	1,906,868	3,003,040	2,566,304	1,920,172	2,283,167
Difference ($)	$0	$(447,341)	$(2,183,319)	$(2,209,837)	$850,862	$3,010,324	$2,367,833
Percent (difference/target)	0	−56.20%	−114.50%	−73.59%	33.16%	156.77%	103.71%
Claims reserve ending balance	$0	$971,674	$2,501,647	$4,491,096	$3,395,301	$2,821,307	$2,874,000
Carrier-held reserves (special + claims)	0	1,111,137	1,488,011	3,635,620	4,142,540	5,767,967	4,785,000

[a]PMB refers to preferred minimum balance.

Table II.19: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Panama Canal Area**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$19,762,316	$20,281,921	$22,943,664	$29,892,435	$34,007,982	$35,474,529	$33,142,000
Contingency reserve ending balance	2,992,714	4,245,063	1,978,588	2,731,927	3,560,670	4,806,431	6,805,000
PMB[a]	1,646,860	1,690,160	1,911,972	2,491,036	2,833,999	2,956,211	2,761,833
Difference ($)	$1,345,854	$2,554,903	$66,616	$240,891	$726,671	$1,850,220	$4,043,167
Percent (difference/PMB)	81.72%	151.16%	3.48%	9.67%	25.64%	62.59%	146.39%
Special reserve ending balance	$5,520,091	$706,643	$939,122	$2,379,318	$7,407,484	$12,902,928	$12,344,000
OPM target level	1,646,860	1,690,160	1,911,972	2,491,036	2,833,999	2,956,211	2,761,833
Difference ($)	$3,873,231	$(983,517)	$(972,850)	$(111,718)	$4,573,485	$9,946,717	$9,582,167
Percent (difference/target)	235.19%	−58.19%	−50.88%	−4.48%	161.38%	336.47%	346.95%
Contingency + special reserves	$8,512,805	$4,951,706	$2,917,710	$5,111,245	$10,968,154	$17,709,359	$19,149,000
OPM target level	3,293,719	3,380,320	3,823,944	4,982,072	5,667,997	5,912,422	5,523,667
Difference ($)	$5,219,086	$1,571,386	$(906,234)	$129,173	$5,300,157	$11,796,937	$13,625,333
Percent (difference/target)	158.46%	46.49%	−23.70%	2.59%	93.51%	199.53%	246.67%
Claims reserve ending balance	$3,403,189	$4,564,676	$5,010,189	$5,800,000	$5,800,000	$6,000,000	$6,664,000
Carrier-held reserves (special + claims)	8,923,280	5,271,319	5,949,311	8,179,318	13,207,484	18,902,928	19,008,000

[a]PMB refers to preferred minimum balance.

Table II.20: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85)**: Postal Supervisors**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$0	$1,701,527	$2,938,307	$5,937,781	$52,498,303	$88,662,552	$139,702,000
Contingency reserve ending balance	0	73,800	212,137	528,700	4,266,371	8,677,421	15,197,000
PMB[a]	0	141,794	244,859	494,815	4,374,859	7,388,546	11,641,833
Difference ($)	$0	$(67,994)	$(32,722)	$33,885	$(108,488)	$1,288,875	$3,555,167
Percent (difference/PMB)		−47.95%	−13.36%	6.85%	−2.48%	17.44%	30.54%
Special reserve ending balance	$0	$43,803	$(44,164)	$1,777,458	$13,215,978	$22,676,523	$31,262,000
OPM target level	0	141,794	244,859	494,815	4,374,859	7,388,546	11,641,833
Difference ($)	$0	$(97,991)	$(289,023)	$1,282,643	$8,841,119	$15,287,977	$19,620,167
Percent (difference/target)		−69.11%	−118.04%	259.22%	202.09%	206.91%	168.53%
Contingency + special reserves	$0	$117,603	$167,973	$2,306,158	$17,482,349	$31,353,944	$46,459,000
OPM target level	0	283,588	489,718	989,630	8,749,717	14,777,092	23,283,667
Difference ($)	$0	$(165,985)	$(321,745)	$1,316,528	$8,732,632	$16,576,852	$23,175,333
Percent (difference/target)		−58.53%	−65.70%	133.03%	99.80%	112.18%	99.53%
Claims reserve ending balance	$0	$414,910	$752,017	$1,580,000	$9,500,000	$17,000,000	$26,434,000
Carrier-held reserves (special + claims)	0	458,713	707,853	3,357,458	22,715,978	39,676,523	57,696,000

[a]PMB refers to preferred minimum balance.

Table II.21: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Postmasters**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$43,660,285	$78,277,417	$119,915,265	$154,132,703	$145,431,126	$140,784,249	$106,332,000
Contingency reserve ending balance	3,937,673	7,580,065	3,919,529	8,618,103	12,289,707	8,695,067	14,074,000
PMB[a]	3,638,357	6,523,118	9,992,939	12,844,392	12,119,261	11,732,021	8,861,000
Difference ($)	$299,316	$1,056,947	$(6,073,410)	$(4,226,289)	$170,446	$(3,036,954)	$5,213,000
Percent (difference/PMB)	8.23%	16.20%	−60.78%	−32.90%	1.41%	−25.89%	58.83%
Special reserve ending balance	$(3,303,944)	$(12,965,492)	$(31,994,111)	$(26,175,217)	$(21,597,723)	$(2,320,228)	$6,654,000
OPM target level	3,638,357	6,523,118	9,992,939	12,844,392	12,119,261	11,732,021	8,861,000
Difference ($)	$(6,942,301)	$(19,488,610)	$(41,987,050)	$(39,019,609)	$(33,716,984)	$(14,052,249)	$(2,207,000)
Percent (difference/target)	−190.81%	−298.76%	−420.17%	−303.79%	−278.21%	−119.78%	−24.91%
Contingency + special reserves	$633,729	$(5,385,427)	$(28,074,582)	$(17,557,114)	$(9,308,016)	$6,374,839	$20,728,000
OPM target level	7,276,714	13,046,236	19,985,878	25,688,784	24,238,521	23,464,042	17,722,000
Difference ($)	$(6,642,985)	$(18,431,663)	$(48,060,460)	$(43,245,898)	$(33,546,537)	$(17,089,203)	$3,006,000
Percent (difference/target)	−91.29%	−141.28%	−240.47%	−168.35%	−138.40%	−72.83%	16.96%
Claims reserve ending balance	$9,559,556	$16,572,104	$37,549,503	$37,337,292	$32,559,074	$28,280,719	$21,290,000
Carrier-held reserves (special + claims)	6,255,612	3,606,612	5,555,392	11,162,075	10,961,351	25,960,491	27,944,000

[a]PMB refers to preferred minimum balance.

Table II.22: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **Rural Carrier**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$37,126,194	$42,980,358	$51,713,701	$61,037,336	$76,252,186	$86,251,516	$85,133,000
Contingency reserve ending balance	6,153,860	8,363,925	6,845,744	5,407,536	8,360,728	13,274,953	18,549,000
PMB[a]	3,093,850	3,581,696	4,309,475	5,086,445	6,354,349	7,187,626	7,094,417
Difference ($)	$3,060,010	$4,782,229	$2,536,269	$321,091	$2,006,379	$6,087,327	$11,454,583
Percent (difference/PMB)	98.91%	133.52%	58.85%	6.31%	31.57%	84.69%	161.46%
Special reserve ending balance	$5,369,660	$1,398,292	$3,972,048	$5,805,100	$18,790,438	$33,422,848	$38,204,000
OPM target level	3,093,850	3,581,696	4,309,475	5,086,445	6,354,349	7,187,626	7,094,417
Difference ($)	$2,275,810	$(2,183,404)	$(337,427)	$718,655	$12,436,089	$26,235,222	$31,109,583
Percent (difference/target)	73.56%	−60.96%	−7.83%	14.13%	195.71%	365.01%	438.51%
Contingency + special reserves	$11,523,520	$9,762,217	$10,817,792	$11,212,636	$27,151,166	$46,697,801	$56,753,000
OPM target level	6,187,699	7,163,393	8,618,950	10,172,889	12,708,698	14,375,253	14,188,833
Difference ($)	$5,335,821	$2,598,824	$2,198,842	$1,039,747	$14,442,468	$32,322,548	$42,564,167
Percent (difference/target)	86.23%	36.28%	25.51%	10.22%	113.64%	224.85%	299.98%
Claims reserve ending balance	$10,198,956	$12,381,824	$13,969,025	$17,000,000	$18,000,000	$17,000,000	$17,236,000
Carrier-held reserves (special + claims)	15,568,616	13,780,116	17,941,073	22,805,100	36,790,438	50,422,848	55,440,000

[a]PMB refers to preferred minimum balance.

Table II.23: Premium Receipts and Reserves Balances in Relation to Preferred Levels (End of Calendar Years 1979-85): **SAMBA**

Data category	1979	1980	1981	1982	1983	1984	1985
Payments to carrier	$19,007,599	$18,246,882	$20,409,733	$28,255,128	$35,030,991	$39,515,917	$41,856,000
Contingency reserve ending balance	3,352,813	4,605,202	2,992,163	2,371,415	3,300,172	5,078,038	7,428,000
PMB[a]	1,583,967	1,520,573	1,700,811	2,354,594	2,919,249	3,292,993	3,488,000
Difference ($)	$1,768,846	$3,084,629	$1,291,352	$16,821	$380,923	$1,785,045	$3,940,000
Percent (difference/PMB)	111.67%	202.86%	75.93%	0.71%	13.05%	54.21%	112.96%
Special reserve ending balance	$5,400,236	$3,062,977	$1,102,155	$1,838,578	$7,025,591	$9,618,568	$13,311,000
OPM target level	1,583,967	1,520,573	1,700,811	2,354,594	2,919,249	3,292,993	3,488,000
Difference ($)	$3,816,269	$1,542,404	$(598,656)	$(516,016)	$4,106,342	$6,325,575	$9,823,000
Percent (difference/target)	240.93%	101.44%	−35.20%	−21.92%	140.66%	192.09%	281.62%
Contingency + special reserves	$8,753,049	$7,668,179	$4,094,318	$4,209,993	$10,325,763	$14,696,606	$20,739,000
OPM target level	3,167,933	3,041,147	3,401,622	4,709,188	5,838,498	6,585,986	6,976,000
Difference ($)	$5,585,116	$4,627,032	$692,696	$(499,195)	$4,487,265	$8,110,620	$13,763,000
Percent (difference/target)	176.30%	152.15%	20.36%	−10.60%	76.86%	123.15%	197.29%
Claims reserve ending balance	$4,099,949	$4,209,249	$5,024,213	$5,631,731	$6,114,114	$7,578,452	$7,115,000
Carrier-held reserves (special + claims)	9,500,185	7,272,226	6,126,368	7,470,309	13,139,705	17,197,020	20,426,000

[a]PMB refers to preferred minimum balance

Letter From GAO's General Counsel on the Legality of Transferring Funds From FEHBP to the General Fund of the Treasury

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICE OF GENERAL COUNSEL

November 26, 1985

B-219236.2

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

Your letter of November 20, 1985, asked for our opinion on the Office of Personnel Management's (OPM) proposal to transfer the Government's share by the Blue Cross/Blue Shield premium rebate from the Federal Employee Health Benefits Plan (FEHBP) Fund's Contingency Reserve account to the General Fund of the Treasury. OPM's plan would be improper for the reasons explained below.

BACKGROUND

On July 10, 1985, the Justice Department approved a proposal by OPM to accept a refund of excess premium contributions accumulated by Blue Cross and Blue Shield (BC/BS) in the Service Benefit Plan during fiscal years 1984 and 1985. BC/BS had been maintaining the exceptional accumulation in its Special Reserve fund (See 41 CFR § 16-4.152 (1984)), but offered a refund when the excess became too great. After rejecting an earlier Blue Cross proposal to refund directly to affected employees and to the Treasury, OPM proposed accepting the rebate in the Contingency Reserve from which fund individual rebates would be disbursed directly to employees. According to the OPM proposal reviewed by Justice, the Government's share of the rebate was to remain in the Contingency Reserve. Memo to the Attorney General from Ralph W. Tarr, July 9, 1985 at 19.

We concurred in the Justice Department's approval of the OPM proposal. B-219236, July 31, 1985. Subsequent to our decision, OPM changed its plan for distribution of the Government's share of the rebate. It now plans to deposit the entire rebated amount (less the employees' share) directly to the General Fund of the Treasury, rather than retaining it in the Contingency Reserve. If there were no statutory authority to accept the funds in the Contingency Reserve, OPM's action

would be correct. However, there is a statute governing both the acceptance of funds and their permissible uses. 5 U.S.C. § 8909 (1982). We think OPM's proposal would violate that statute.

HISTORY OF FEHBP FUND AND POTENTIAL REFUNDS

The Federal Employee Health Benefits Plan (FEHBP) was established in 1959. Pub. L. No. 86-382, 73 Stat. 708. It is now codified at 5 U.S.C. §§ 8901-13 (1982). The statute established a FEHBP fund, managed by the Civil Service Commission (now OPM), to cumulate and hold the premium contributions of all the participating Government entities and of all the enrolled employees and annuitants for timely disbursement to the insurance carriers.

The original Senate version of the legislation called for the fund managers to set aside a contingency reserve composed entirely of "dividends, premium rate credits or other refunds." The Civil Service Commission was highly critical of the Senate proposal. Noting a general and pervasive trend toward escalating health care costs, the Director wrote:

> "These refunds (and there is nothing to guarantee that any will be made by the carriers) are completely inadequate for use as a contingency reserve." H.R. Rep. No. 957, 86th Cong., 1st Sess. 22.

He then suggested that 10 percent of premiums be set aside as a contingency reserve. The Committee accepted that proposal, but reduced the reserved amount to a maximum of 3 percent of premiums.

The current statutory language remains basically unchanged and reads as follows:

> "Portions of the contributions made by employees, annuitants, and the Government shall be regularly set aside in the Fund as follows:
>
> * * * * *
>
> "(2) For each health benefits plan, a percentage, not to exceed 3 percent of the contributions toward the plan, determined by the Office to be reasonably adequate to provide a contingency reserve.

B-219236.2

> "* * * The income derived from dividends, rate adjustments, or other refunds made by a plan shall be credited to its contingency reserve." 5 U.S.C. § 8909(b) (1982).

The legislative history referred to indicates that rebates of exactly the type now in process were anticipated by the original legislation, though they were thought to be unlikely to occur. Unlikely or not, however, their intended destination was the Contingency Reserve.

Given the statutory language and its bolstering legislative history, we think it is clear that the rebate was properly credited to the reserve.

USE OF FUNDS IN THE RESERVE IS LIMITED

Once funds are deposited in the reserve they can only be used for purposes authorized,[1] which are:

> "* * * to defray increases in future rates * * * to reduce the contributions of employees and the Government to, or to increase the benefits provided by, the plan from which the reserves are derived* * *."

Direct disbursement to overcharged employees was approved by the Justice Department and our Office as a means of reducing employee contributions. Rebates would directly offset employees' current payroll deductions according to this analysis.

The theory, however, does not apply to the Government's share of the funds in the Contingency Reserve. Direct return of the Government's share of the rebate to the Treasury would not offset current premium obligations. On the contrary, this plan is intended to "save" the rebate, rather than use it for its intended purposes.

The essence of OPM's dilemma is that the Contingency Reserve statute's authority to apply reserves to current premium obligations also provides authority to "augment" agencies' appropriations by the amount those agencies would otherwise have spent on insurance coverage. Temporarily

[1] This statement, of course, assumes that a deposit was legally authorized. We do not mean to imply that an erroneous deposit could not be retrieved administratively.

B-219236.2

relieved of the obligation to fund insurance premiums, those agencies can devote the newly-liberated funds (most of which are in unrestricted lump-sum appropriations) to program purposes. Apparently, in OPM's view, the only way to avoid this result is to "save" the rebate by depositing it in the Treasury.

DEPOSIT WOULD BE UNAUTHORIZED TRANSFER

Aside from the FEHBP statute itself, there are other statutory restrictions on the disposition of the Contingency Reserve funds. Title 31 United States Code provides in section 1532 that:

> "[a]n amount available under law may be withdrawn from one appropriation account and credited to another * * * only when authorized by law."

This is an absolute bar to the permanent administrative transfer of funds between appropriation accounts. Nothing in the FEHBP statute leads us to believe that transfers were authorized. On the contrary, § 8909(b) dictates that refunds be maintained in the Reserve and used for authorized purposes.

FUNDS DEPOSITED IN THE TREASURY SHOULD BE RECOUPED

We understand that OPM's plan to deposit the funds could be executed at any time. If the funds have been deposited, we would recommend that OPM take appropriate administrative action to restore the funds to the Contingency Reserve.

We trust this opinion will be helpful and timely. Unless otherwise agreed with your staff this opinion will be available to the public 30 days from its date.

Sincerely yours,

Harry R. Van Cleve

Harry R. Van Cleve
General Counsel

Comments From the Office of Personnel Management

United States
Office of Personnel Management
Washington, D.C. 20415

In Reply Refer To: Your Reference:

Mr. William J. Anderson
Assistant Comptroller General
General Accounting Office
Washington, D. C. 20548

DEC 12 1986

Dear Mr. Anderson:

We have reviewed your draft report entitled "Insurance Reserves: Options for Regulating the Federal Health Benefits Program Reserve Levels." I have the following comments.

Much of the description of how our program operates is excellent. However, your continued belief that refunds were inequitably distributed among the government and enrollees is erroneous. I explained our views on this subject in my December 18, 1985 response to your report entitled "Insurance Refunds: Allocation Inequities in the Federal Health Benefits Program." Since that time, OPM's refund of excess reserves has been upheld by the courts in the case of Bolden vs. Blue Cross-Blue Shield and OPM.

While opposing refunds, you concede nonetheless that using them to reduce excess reserves results in more stable rates and benefits than the other two alternatives, improving benefits and decreasing premiums. Surely stable rates and benefits are a desirable feature in the operation of the Federal Employees Health Benefits (FEHB) Program. One major impetus for negotiating the refunds was to protect the enrollee from the dramatic increase in premium that would have resulted from first artificially lowering the premium to reduce reserves and subsequently increasing that premium to an appropriate level.

Of the three methods of drawing down excess reserves, you approve only reduction in future premiums. You believe utilizing reserves to fund additional benefits suffers from the same defect of inequitable treatment of the government and enrollees that you ascribe to refunds. Here again your reasoning is faulty. If the benefit increases are necessary for the continued effective delivery of health care to enrollees, funding them through excess reserves merely forestalls a premium increase. The avoidance of a premium increase is effectively the same as the premium reduction methodology you favor.

CON 114-24.3
January 1980

The whole notion of "equal treatment" that comes through in your report seems to me very much off the mark. I particularly find disturbing your example of alcohol and drug abuse treatment not being equally beneficial to all enrollees in a plan. This treatment is not unlike hospital services or any other benefits which likewise are not used by all enrollees each contract year. The fact that the treatment is covered is beneficial to the enrollee, whether or not the enrollee utilizes the service.

In summary, we believe refunds, benefit changes and premium reductions are all valid methods of adjusting FEHB Program reserves. They are all specifically contemplated and sanctioned in the governing legislation. We further believe that the Director of OPM should be allowed the flexibility of using all three as the situation and particular needs may require to ensure the most effective operation of the FEHB Program.

I appreciate the opportunity to comment on your draft report.

Sincerely,

James W. Morrison, Jr.
Associate Director
for Retirement and Insurance

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.